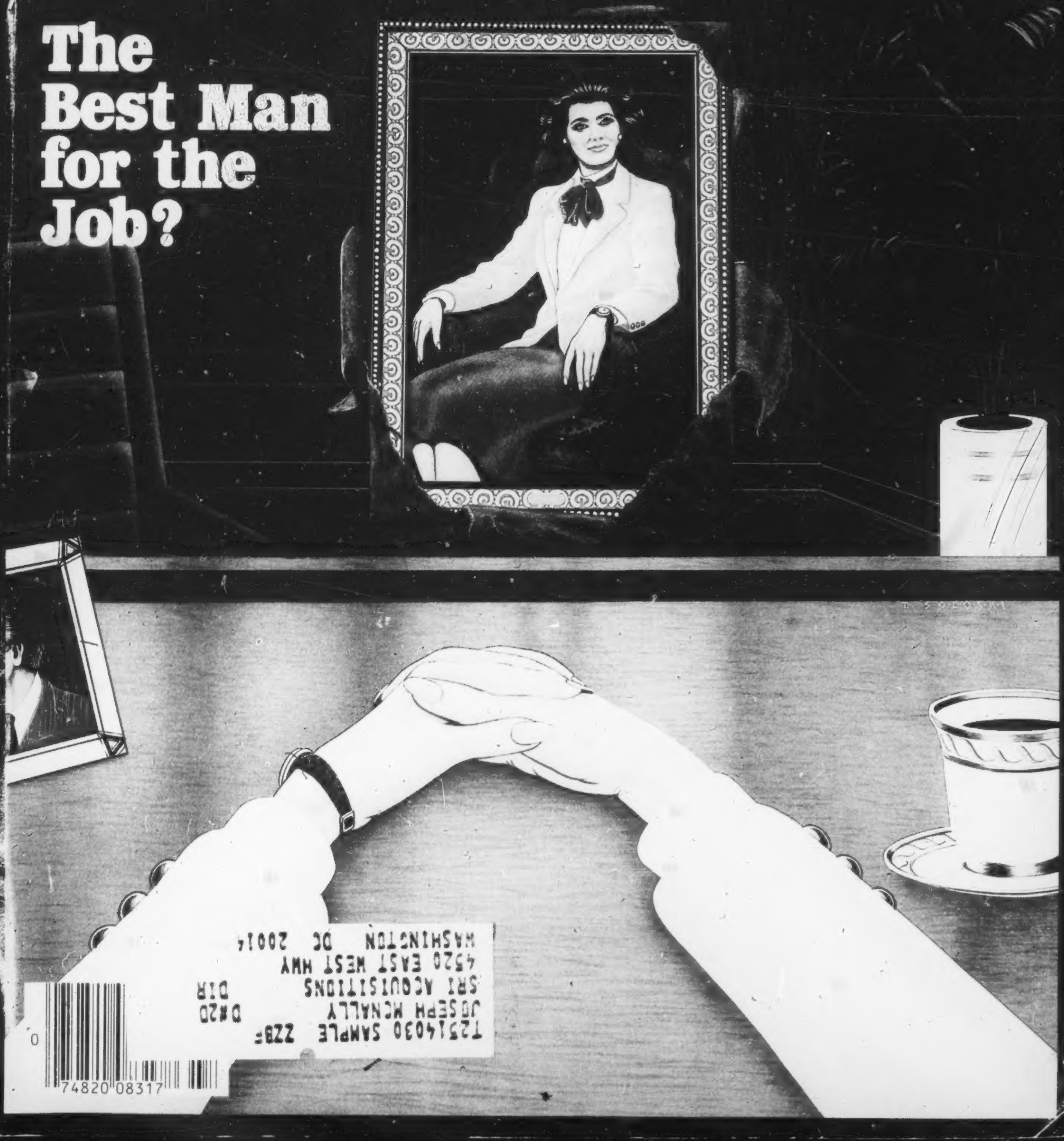
NOVEMBER 21, 1983 THREE DOLLARS

Forbes

The Best Man for the Job?



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Forbes

November 21, 1983
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Forbes
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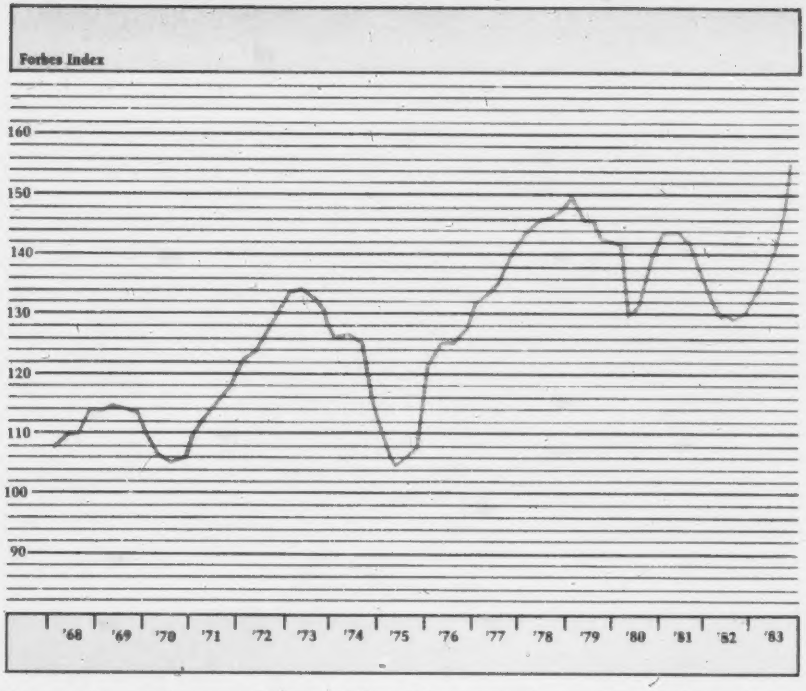
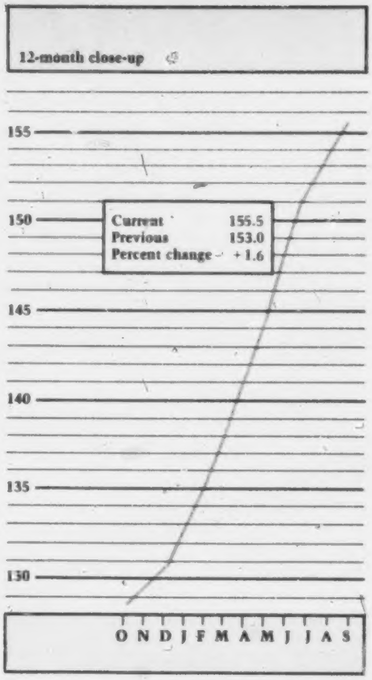
The Forbes Index





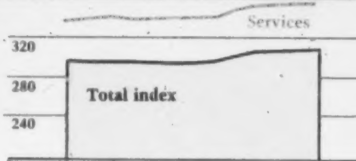
The rocky road upward. The Forbes Index posted another gain, but there are signs that the economy might face some roadblocks ahead. The good news: Personal income was up 0.6% over the previous month. But consumers will see only marginal gains in purchasing power because the CPI was up nearly 0.5% in September. This makes nearly 6% on an annual basis. The Seventies' double-digit inflation may not recur, but the low rates of the post-WWII boom years may also prove to be elusive. Of even more concern is the 0.6% gain in the services component of the CPI.

Housing doesn't look bright, either. Latest figures on new housing starts are up 44.6% from the same period last year, but down 13% on a monthly basis.

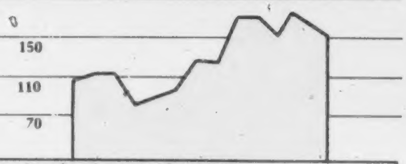
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

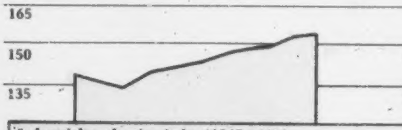
To measure these eight elements, Forbes monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.



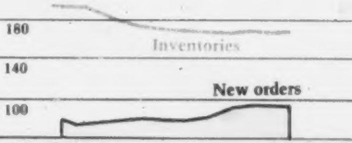
Consumer price indexes (1967=100)
all urban consumers, unadjusted (Dept. of Labor)



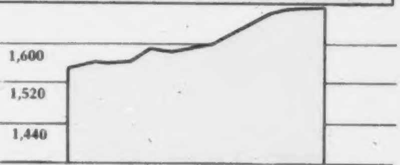
New housing starts (thousands)
privately owned, unadjusted (Dept. of Commerce)



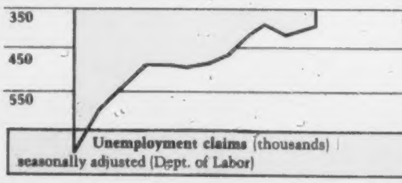
Industrial production index (1967=100)
Seasonally adjusted (Federal Reserve)



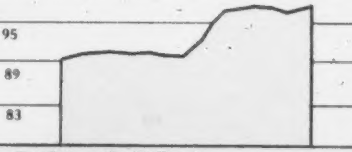
Manufacturers new orders and inventories
($billions) seasonally (Dept. of Commerce)



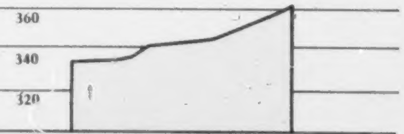
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims (thousands)
seasonally adjusted (Dept. of Labor)



Retail store sales ($billions)
seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions)
total, seasonally adjusted (Federal Reserve)

brokers or public announcements, end up losing. Some of those professionals tend to identify changes only after they have been anticipated in stock prices. "My answer to most people," he says, "is don't play the stock market."

So what's Howard up to now? Frankly, he's puzzled. Most money managers, he notes, are "uncertain and frightened." But to keep their hand in the markets, they're playing big, safe companies with relatively low price/earnings ratios, like Philip Morris, Coca-Cola and IBM. "I'm not dealing with absolutes but with perceptions. I don't find anything particularly interesting. My perception is that expectations already are built into the market." Meaning? The uncertainty and fear are already built into stock prices, leaving little room on the short side.

The "mistake a lot of people make," he continues, "is playing the market when they don't have a strong conviction. When I don't have a great idea, I wait." For example, he feels that Lockheed is a strong company. But the stock has more than doubled in a year. "All the major institutional players know about it and already are in," he notes. He probably won't buy. Let reality fall slightly short of expectations, and the stock price will drop.

Down the road, however, Howard sees an opportunity for a major new short position: the semiconductors. "I'm probably much too early," he says. "But right now the semiconductors are a big long play by most of Wall Street because of increased demand as the economy recovers. What Wall Street forgets," he says, "is that semiconductor manufacturers are like rabbits. Let them loose, and they can't stop. Before you know it, you have an oversupply." ■

How do you win at the new issues game? Read the prospectus? Listen to your broker? Play the odds? Look at the underwriter?

Pick a name

By Richard L. Stern

As any new issue freak has learned to his or her dismay, 1983 is not shaping up as a vintage year so far as initial public offerings are concerned. The overall record of the 1983 initial public offerings, as compiled by Abrahamsen & Co., a Hoboken, N.J.-based firm that, among its services, tracks initial public offerings of $5 million and up, was not encouraging. However, by no means were all of them duds. Nor did every underwriter's offering fare equally badly. We looked at the 20 investment bankers who, acting as lead managers, raised the most money. Together they took in more than $7 billion for initial public offerings. (We left out two that had done less than five such offerings, too few for the law of averages to take effect.)

The lead broker—the one who ran the books—sets the initial offering price and so is most responsible for any misjudging of the market.

The winner is E.F. Hutton. Its 22 initial public offerings this year were up an average 22.42%, while Standard & Poor's 400 was up only 5.45% for the same period.

Not only was Hutton the winner, it was the clear winner. Of the 18 major underwriters of initial public offerings, only two besides Hutton—the San Francisco-based Hambrecht & Quist—and Drexel Burnham Lambert—would have given you a return for your money significantly better than the broad stock averages, and the broad average didn't do much at all.

Which means there is a certain amount of egg on some prominent faces. Of course, the last word isn't in. It takes longer than a fraction of a year to prove out a new stock issue. But, anyhow, investment house by investment house, we list the results at left through Oct. 21 of the 1983 new issues sweepstakes. ■

More downs than ups

Below, the record for initial offerings from the biggest new issue houses this year. Picking the right issue was as chancy as picking an underwriter: E.F. Hutton, for instance, saw its best stock rise 174.5%, its worst fall 73.2%.

Lead manager	Number of issues lead mgr	Average gain/loss per share from offering to 10/21/83	Corresponding gain/loss S&P's 400	Net difference
EF Hutton	22	22.42%	5.45%	16.97
Hambrecht & Quist	6	10.15	3.46	6.69
Drexel Burnham	12	9.25	0.87	8.38
Alex. Brown & Sons	16	2.94	2.94	0
Dean Witter	6	1.70	4.10	–2.40
Salomon Brothers	11	1.44	4.63	–3.19
Goldman, Sachs	8	0.23	–0.38	0.61
Prudential-Bache	22	–2.19	1.90	–4.09
Kidder, Peabody	6	–3.27	0.81	–4.08
Robertson, Colman	7	–4.22	0.57	–4.79
Merrill Lynch	18	–4.50	3.00	–7.50
AG Becker Paribas	8	–4.69	2.55	–7.24
LF Rothschild	24	–5.72	4.51	–10.23
Lehman Brothers	11	–5.96	0.18	–6.14
Morgan Stanley	8	–6.19	3.92	–10.11
First Boston	6	–11.95	1.71	–13.66
Shearson/American Express	7	–12.84	2.18	–15.02
Blyth Eastman	6	–13.37	1.57	–14.94

Source: Abrahamsen & Co.

Wall Street analysts see strong profit gains for next year. But some of the tint is coming off their rose-colored glasses.

Happy days are here again?

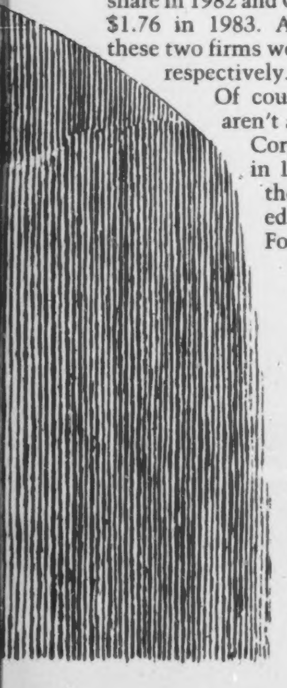
By Steve Kichen and Leslie Pittel

SECURITIES ANALYSTS are optimistic by nature but cautious by experience. On the whole, they are predicting that corporate earnings will be up 30% next year. And that's on top of projected 19% gains in 1983.

But now the caution creeps in. Many of the analysts are starting to trim their Bull Market enthusiasm a bit. "On balance, earnings estimates are declining," says Stan Levine, a vice president at Lynch, Jones & Ryan. His firm maintains the Institutional Brokers Estimate System, which tracks Wall Street's consensus earnings estimates for nearly 2,800 companies. "As we approach yearend we can see that the actual earnings growth in 1983 will be somewhat lower than the current forecast," Levine explains. Never mind, though. Even trimmed a bit, the 1984 estimates are still impressive.

Should you bet your bucks on what the analysts think? In recent years, the analysts' record has been surprisingly good. Last year, at the tail end of the recession (FORBES, *Nov. 22, 1982*), they anticipated that 96% of The Forbes 500s firms would post earnings gains for 1983. More than 70% should meet that prediction.

What about calling the shots on individual companies? The analysts didn't do too badly there, either. For example, the experts expected American Broadcasting to earn $5.64 per share in 1982 and Central Soya to earn $1.76 in 1983. Actual earnings for these two firms were $5.54 and $1.68, respectively.



Of course, even the pros aren't always right. Crane Corp. lost $0.33 a share in 1982, a far cry from the $0.79 gain expected by the experts. Ford Motor, Mattel and Mead also did much worse than expected.

Bet your last dollar on such estimates? No. But as a rough guide they are useful. The table on the following pages includes IBES consensus estimates for the majority of The Forbes 500s companies (FORBES, *May 9*). We eliminated the 127 firms where fewer than three earnings projections were available for either 1983 or 1984, so there are 681 companies in our report.

Not surprisingly, a large flock of analysts follow many of The Forbes 500s companies. For example, there were 35 professionals who contributed estimates for IBM and 29 for Mobil.

Pay special attention to the last column in our table. It presents the "confidence factor," a statistical measure of how well analysts agree on their earnings estimates. This indicates whether the projections cluster together or fall all over the lot. When it comes to IBM, for example, there is "very high" agreement among the analysts about 1984 profitability. This means that if the company earns much more or less than $10.38 a share next year, Wall Streeters will be surprised.

Because many of The Forbes 500s companies are large, stable firms, our tables are full of very high or high confidence ratings. But long-shot opportunities exist in situations where security analysts have wildly differing opinions, provided you pick the right estimate from the widely varying guesses.

That was true for Chrysler last year. We reported a consensus estimate of $2.96 a share. But the 13 projections that constituted this figure ranged from a low of $1.25 to a high of $4.65. Actual earnings for 1983 are now estimated at $6.07. Risk-takers who leaned toward the higher estimates and bought shares last fall at $9 more than trebled their money.

Where to look for similar situations in 1984? There could be good pickings along with high risk among steel, aluminum and oil service stocks. These days many of these stocks carry low confidence factors.

Then there's Chrysler, again. Analysts evidently aren't total believers in its recovery. Earnings estimates for next year range from $4.65 to $12.61. That's enough difference of opinion to receive a very low confidence factor.

Keep in mind, however, that the market has little mercy when it catches the analysts asleep. Last year both Baldwin-United and Digital Equipment carried average confidence factors. That's a big reason share prices dropped so sharply when the firms didn't live up to the expectations of the experts.

What do all these figures indicate about the stock market as a whole? If the estimates are correct, the recent price on the Dow industrials represents a multiple of only 8.7 times probable 1984 earnings. On that basis the market looks cheaper than it does on its current P/E multiple of 11.9. No wonder there is a relatively high degree of bullishness on The Street these days. ■

How we get the numbers

The relatively simple numbers on the following pages are the end product of a great deal of sophisticated work by the Institutional Brokers Estimate System, a division of Lynch, Jones & Ryan, a New York brokerage firm. IBES uses questionnaires, computers and direct contact to gather earnings estimates on almost 2,800 firms, polling more than 1,300 security analysts at 80 brokerage houses. Then The Boston Co. calls its IBM mainframe computers into action. Out come consensus estimates and standard deviations. These are the numbers we use to determine our confidence factors.

All these data are available either in printed form or through on-line time-sharing. This year, however, FORBES used the newest link to IBES—Micro/Scan computer software developed by ISYS Corp. of Cambridge, Mass. This system was created by 35-year-old Larry Moore, president of ISYS. His idea: Figure out a way to circumvent time-sharing by using a personal computer to access investment-oriented information. Moore's concept was refined and developed by his colleague, computer whiz Josef Polak, an ISYS vice president.

The secret is a disk, chock-full of data, that Micro/Scan mails every month to subscribers. With it, almost anyone who owns a microcomputer can screen stocks in seconds. The system can also convert reports into popular electronic spreadsheet formats, such as VisiCalc and Lotus 1-2-3. In addition to IBES, a variety of major databases are now available through Micro/Scan, and the 8,400-firm Disclosure, Inc. library is coming soon. Those money managers who can't wait for their monthly disk to arrive can update more quickly by telephone.

Anyone can buy the service, but it is designed—and priced—for institutional investors. Software alone costs up to $9,500.

Peering into the crystal ball: a look at 1984 earnings

Wall Street analysts think most of the following Forbes 500s companies will show big gains next year. Compare each earnings estimate to the analyst confidence factor. If the confidence factor is high, that means the analysts are in close agreement on their estimates. A low confidence factor means the opposite.

		Earnings per share*			% change	1984 estimate		
Company	**Recent price**	**1982**	**1983 estimates**	**1984 estimates**	**1984 vs. 1983 estimates**	**P/E**	**number of analysts**	**confidence factor**
AMP	104⅜	$3.31	$4.45	$5.81	30.6%	18.0	15	high
AMR	30¾	–1.00	2.03	3.82	88.2	8.1	22	low
ARA Svcs	50	3.43	4.47	5.26	17.7	9.5	5	high
Abbott Labs	51⅜	2.37	2.82	3.33	18.1	15.4	27	very high
Advanced Micro Devices	30⅛	0.39	0.88	1.40	59.1	21.5	22	low
Aetna Life & Casualty	35¾	5.80	4.13	5.00	21.1	7.2	24	low
Affiliated Bankshares of Colo	24⅝	2.97	3.06	3.52	15.0	7.0	4	high
HF Ahmanson	31	–1.88	3.43	6.17	79.9	5.0	11	low
Air Products & Chemicals	45¼	3.68	3.60	4.46	23.9	10.2	23	average
Albertson's	27¾	1.91	2.09	2.43	16.3	11.5	16	very high
Alco Standard	37¾	2.95	2.77	3.53	27.4	10.7	9	high
Alexander & Alexander Svcs	20	0.57	1.11	1.64	47.7	12.2	13	low
Allegheny Intl	30⅞	0.21	0.62	3.67	491.9	8.4	6	low
Allegheny Power System	25¾	3.41	3.53	3.69	4.5	7.0	20	very high
Allied Bancshares	31⅝	2.78	3.29	3.79	15.2	8.3	9	very high
Allied Corp	56⅛	6.22	5.80	7.48	29.0	7.5	18	high
Allied Stores	51⅛	4.41	5.67	6.41	13.1	8.0	18	average
Allis-Chalmers	16⅝	–17.24	–10.38	0.14	NM	NM	8	very low
Aluminum Co of America	44	– 0.15	1.68	4.35	158.9	10.1	23	very low
AMAX	24⅝	– 6.53	–2.58	0.77	NM	31.9	16	very low
Amerada-Hess	30¼	2.00	3.11	4.29	37.9	7.0	18	low
American Brands	55⅝	6.55	7.13	7.94	11.4	7.0	13	very high
American Broadcasting Cos	61⅞	5.54	5.86	7.03	20.0	8.8	22	high
American Can	43⅛	1.12	3.62	4.51	24.6	9.6	9	average
American Cyanamid	53⅞	2.74	3.44	4.52	31.4	11.9	15	average
American Electric Power	18⅞	2.03	2.18	2.36	8.3	8.0	19	very high
American Express	34¼	3.02	3.59	4.12	14.8	8.3	18	very high
American General	22⅜	2.41	2.87	3.30	15.0	6.8	18	average
American Home Products	51⅜	3.59	4.00	4.49	12.3	11.5	28	very high
American Hospital Supply	45½	2.43	2.82	3.33	18.1	13.7	26	very high
American Intl Group	64½	5.61	6.30	7.24	14.9	8.9	25	high
American Medical Intl	27⅞	1.69	2.07	2.52	21.7	11.1	28	very high
American Motors	7⅞	–2.85	–2.77	0.23	NM	35.0	8	very low
American Natl Insurance	20½	2.38	2.67	2.94	10.1	7.0	3	high
American Natural Resources	41⅞	6.77	6.48	6.82	5.2	6.1	15	very high
American S&L Assn of Fla	15	–2.54	2.32	4.26	83.6	3.5	5	very low
American Standard	35⅛	1.30	2.42	3.76	55.4	9.3	11	low
American Stores	40⅞	2.61	3.27	3.90	19.3	10.3	11	average
American Telephone & Tel	62⅞	8.06	8.33	9.35	12.2	6.7	30	high
AmeriTrust	43	6.69	6.00	7.01	16.8	6.1	8	high
Amfac	28	2.27	0.78	2.81	260.3	10.0	10	low
AmSouth Bancorp	33⅜	4.21	4.53	4.95	9.3	6.8	7	very high
Amstar	47⅜	4.31	2.34a	3.78	61.5	12.5	3	average
Anderson, Clayton	27	4.47	1.75a	3.16	80.6	8.5	6	average
Anheuser-Busch	71½	5.68	6.56	7.51	14.5	9.5	21	very high
Apple Computer	21½	1.06	1.50	1.84	22.7	11.7	22	very low
Archer-Daniels-Midland	22⅝	2.03	1.16a	2.27	95.7	10.0	15	low
Arizona Public Svc	24	3.30	3.35	3.43	2.4	7.0	19	very high
Arkla	23⅞	1.90	1.90	2.43	24.0	9.8	17	average
Armco	19	–5.41	–3.56	1.65	NM	11.5	15	very low
Armstrong World Industries	27⅞	0.95	2.26	3.12	38.1	8.9	14	low
ASARCO	29¼	–2.40	2.19	3.96	80.8	7.4	16	very low
Ashland Oil	28⅝	5.27	2.30	4.90	113.0	5.8	8	very low
Associated Dry Goods	65¾	4.31	5.58	6.48	16.1	10.1	17	high
Atlantic Bancorp	23¼	2.40	2.67	3.00	12.4	7.8	3	very high

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Peering into the crystal ball: a look at 1984 earnings

Company	Recent price	Earnings per share* 1982	1983 estimates	1984 estimates	% change 1984 vs. 1983 estimates	1984 estimate P/E	number of analysts	confidence factor
Atlantic Richfield	45¾	$6.61	$6.29	$7.07	12.4%	6.5	34	high
Automatic Data Processing	38	1.71	1.86a	2.20	18.3	17.3	16	very high
Avco	34⅜	3.02	3.84	4.62	20.3	7.4	7	average
Avnet	42¾	1.64	1.43a	2.19	53.1	19.5	12	average
Avon Products	24¼	2.75	2.54	3.03	19.3	8.0	17	low
Baker Intl	20¾	3.60	–0.38	1.35	NM	15.3	29	very low
Bally Manufacturing	22⅜	3.20	1.55	2.39	54.2	9.4	12	very low
Baltimore Gas & Elec	31¾	4.07	4.37	4.47	2.3	7.1	19	very high
Bank of New York	29⅛	4.21	4.67	5.05	8.1	5.8	6	very high
Bank of Virginia	30½	4.18	4.72	5.13	8.7	5.9	3	average
BankAmerica	19½	2.60	2.89	3.43	18.7	5.7	29	average
Bankers Trust New York	43⅜	7.95	8.35	9.14	9.5	4.8	26	high
Barnett Banks of Florida	39½	3.94	4.47	5.03	12.5	7.9	17	very high
Baxter Travenol Labs	55¾	2.64	3.18	3.81	19.8	14.6	26	very high
BayBanks	36⅛	5.33	5.17	5.92	14.5	6.1	3	high
Beatrice Foods	30	3.06	3.23	3.61	11.8	8.3	15	high
Becton, Dickinson	40½	3.63	1.87	3.15	68.4	12.9	19	average
Beneficial	33⅜	1.34	3.81	4.36	14.4	7.7	7	average
Best Products	36¼	2.45	2.88	3.61	25.3	10.1	12	low
Bethlehem Steel	24	–33.64	–7.28	3.00	NM	8.0	15	very low
Beverly Enterprises	27⅜	1.33	1.61	2.02	25.5	13.6	8	very high
Big Three Industries	23⅛	2.08	1.48	2.18	47.3	10.6	15	low
Black & Decker Mfg	24⅞	0.41	1.08	1.98	83.3	12.6	12	low
Blue Bell	36⅞	2.92	3.99	4.73	18.5	7.8	12	high
Boeing	38	3.02	3.70	4.03	8.9	9.4	29	average
Boise Cascade	41	0.26	2.24	4.22	88.4	9.7	19	high
Borden	57⅞	4.83	6.76	7.74	14.5	7.5	7	average
Borg-Warner	48¾	3.90	4.17	5.56	33.3	8.8	9	average
Boston Edison	27¼	3.18	3.68	3.82	3.8	7.1	12	high
Bristol-Myers	45⅞	2.59	2.97	3.41	14.8	13.5	27	very high
Brooklyn Union Gas	32⅛	4.60	4.73	5.13	8.5	6.3	8	very high
Brown-Forman Distillers	31¼	3.76	3.62	4.00	10.5	7.8	5	average
Brown Group	32⅝	2.78	3.22	3.76	16.8	8.7	10	high
Browning-Ferris Industries	39¾	2.07	2.40	3.02	25.8	13.2	13	very high
Brunswick	49⅝	–1.28	4.74	5.68	19.8	8.7	8	average
Burlington Industries	38	1.85	3.08	4.80	55.8	7.9	10	low
Burlington Northern	104¾	4.65	8.87	11.07	24.8	9.5	21	low
Burroughs	50⅞	2.17	4.51	5.54	22.8	9.2	20	average
CBI Industries	33	5.06	2.84	3.16	11.3	10.5	12	low
CBS	76¼	4.01	6.78	8.19	20.8	9.3	21	very high
CBT	30	5.36	4.96	5.61	13.1	5.4	4	very high
CIGNA	45⅜	6.38	5.93	6.85	15.5	6.6	27	average
CPC Intl	39½	4.80	4.42	5.23	18.3	7.6	19	high
CSX	75⅛	8.10	6.38	9.12	42.9	8.2	22	low
Cabot	27½	2.77	2.14	2.73	27.6	10.1	10	average
Cameron Iron Works	18¾	5.02	0.11a	0.80	627.3	23.4	8	very low
Campbell Soup	57¾	4.64	5.13a	5.81	13.3	9.9	18	very high
Capital Cities Communications	145½	7.25	8.41	10.08	19.9	14.4	19	high
Capital Holding	35½	3.98	4.44	4.97	11.9	7.1	24	very high
Carnation	49⅞	5.21	5.64	6.19	9.8	8.1	13	very high
Carolina Power & Light	24	3.17	3.24	3.45	6.5	7.0	19	very high
Carter Hawley Hale Stores	22⅝	1.51	1.93	2.51	30.1	9.0	18	average
Castle & Cooke	17⅛	0.17	–1.85a	1.24	NM	13.8	8	low
Caterpillar Tractor	43	–2.04	–3.19	2.77	NM	15.5	21	very low
Celanese	77¾	0.05	5.06	7.94	56.9	9.8	22	low
Centel	38½	3.96	4.24	4.72	11.3	8.2	19	high
Centerre Bancorp	25¼	3.04	3.18	4.02	26.4	6.3	3	average

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Central & South West	19⅞	$2.82	$2.96	$3.13	5.7%	6.4	24	very high
Central Illinois Pub Svc	15⅝	1.81	1.93	2.03	5.2	7.7	8	high
Central Soya	15⅜	1.28	1.68a	1.96	16.7	7.8	4	average
Centran	17½	2.13	2.72	3.38	24.3	5.2	3	very low
Champion International	23¾	0.45	1.61	3.03	88.2	7.8	20	low
Chase Manhattan	47	11.27	10.43	11.58	11.0	4.1	28	average
Chemical New York	41½	8.70	8.57	9.40	9.7	4.4	19	average
Chesebrough-Pond's	40⅛	3.56	3.56	4.09	14.9	9.8	18	very high
Chrysler	29¾	−1.28	6.07	8.80	45.0	3.4	18	very low
Chubb	62⅛	6.03	7.60	8.29	9.1	7.5	24	average
Cincinnati Gas & Elec	13⅝	2.75	2.75	2.85	3.6	4.8	16	high
Cincinnati Milacron	29¼	0.97	− 0.42	1.04	NM	28.0	16	very low
Citicorp	33¼	5.33	6.32	7.10	12.3	4.7	32	high
Citizens & Southern Ga	13½	1.72	1.82	2.06	13.2	6.6	9	average
Citizens Fidelity	30¼	3.30	3.56	4.02	12.9	7.5	6	high
City Investing	35⅜	2.86	3.98	5.32	33.7	6.7	8	average
Cleveland Electric Illuminating	20⅞	3.01	3.11	3.15	1.3	6.6	16	high
Clorox	28¼	1.90	2.72a	3.07	12.8	9.2	15	very high
Coastal Corp	35	2.65	3.76	4.27	13.6	8.2	11	average
Coca-Cola	52⅞	3.95	4.24	4.95	16.7	10.7	25	high
Colgate-Palmolive	24	2.41	2.50	2.71	8.4	8.9	14	high
Colonial Penn Group	21	1.82	2.65	2.95	11.3	7.1	9	average
Colt Inds	48⅝	1.24	3.79	4.99	31.7	9.8	6	average
Columbia Gas System	33⅛	5.10	4.20	4.81	14.5	6.9	11	average
Combined International	37⅝	2.96	3.68	4.19	13.9	9.0	22	average
Combustion Engineering	32½	4.77	3.46	3.94	13.9	8.3	12	low
Commerce Clearing House	57	3.50	3.32	4.44	33.7	12.8	8	high
Commerce Union	19¼	2.61	2.96	3.26	10.1	5.9	5	average
Commonwealth Edison	27⅞	3.75	4.04	4.18	3.5	6.7	21	very high
Communications Satellite	38¾	2.70	2.97	3.28	10.4	11.8	17	average
Computervision	39	1.18	1.30	1.87	43.8	20.9	22	average
ConAgra	31⅛	2.56	2.95	3.56	20.7	8.8	4	average
Consolidated Edison	23⅞	3.55	3.79	3.87	2.1	6.2	20	high
Consolidated Foods	48⅛	5.39	5.75a	6.25	8.7	7.7	18	very high
Consolidated Freightways	55⅞	4.08	4.75	5.66	19.2	9.9	21	high
Consolidated Natural Gas	32¾	3.90	4.02	4.50	11.9	7.3	16	high
Consumers Power	19¼	3.16	3.19	3.22	0.9	6.0	16	high
Continental Corp	30⅛	2.04	1.35	2.21	63.7	13.6	23	very low
Continental Group	47½	4.80	5.15	6.54	27.0	7.3	13	average
Continental Illinois	21½	2.12	3.09	3.97	28.5	5.4	27	low
Continental Telecom	24	2.28	2.46	2.85	15.9	8.4	21	high
Control Data	46½	4.11	4.43	5.59	26.2	8.3	19	high
Convergent Technologies	18⅜	0.42	0.44	1.04	136.4	17.6	15	low
Cooper Industries	33	2.75	1.39	2.57	84.9	12.9	20	low
Corning Glass Works	75½	3.52	4.37	6.02	37.8	12.5	10	low
Cox Communications	46⅜	2.31	2.61	3.16	21.1	14.7	19	very high
Crane	29½	− 0.33	−1.20	3.37	NM	8.8	3	very low
Cray Research	47⅝	1.38	1.75	2.30	31.4	20.7	12	very high
Crocker National	30⅜	3.56	3.24	4.06	25.3	7.5	14	average
Crown Cork & Seal	34⅜	3.15	3.92	4.65	18.6	7.4	6	average
Crown Zellerbach	31⅞	− 4.86	2.26	3.58	58.4	8.9	17	low
Cummins Engine	64½	0.21	− 0.13	9.76	NM	6.6	7	low
Dana	43¼	1.43	2.63	4.47	70.0	9.7	13	low
Dart & Kraft	69⅛	6.40	8.22	9.35	13.7	7.4	21	high
Dayton-Hudson	35⅛	2.06	2.50	2.99	19.6	11.7	22	very high
Dayton Power & Light	14⅜	2.65	2.70	2.81	4.1	5.1	11	high
Deere & Co	38⅛	0.78	−0.33	2.66	NM	14.3	23	very low

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Peering into the crystal ball: a look at 1984 earnings

		Earnings per share*			% change	1984 estimate		
Company	Recent price	1982	1983 estimates	1984 estimates	1984 vs. 1983 estimates	P/E	number of analysts	confidence factor
Delmarva Power & Light	18	$2.13	$2.21	$2.36	6.8%	7.6	15	very high
Delta Air Lines	36	0.52	–2.18a	3.16	NM	11.4	23	very low
Deluxe Check Printers	40¼	2.83	3.25	3.71	14.2	10.9	13	very high
Deposit Guaranty	37¾	5.14	5.53	6.20	12.1	6.1	3	high
Detroit Edison	15¼	1.75	2.04	2.09	2.5	7.3	14	high
Diamond Shamrock	24½	2.37	1.66	2.45	47.6	10.0	14	low
Diebold	88¾	4.80	5.35	6.33	18.3	14.0	12	average
Digital Equipment	72½	7.53	5.00a	7.25	45.0	10.0	35	high
Walt Disney Productions	62	3.01	3.29	4.44	45.0	14.0	22	average
Dominion Bankshares	19¼	2.28	2.53	2.87	13.4	6.7	3	average
Donaldson, Lufkin & Jenrette	17⅛	1.41	1.57	1.68	7.0	10.2	4	low
RR Donnelley & Sons	43½	2.40	3.02	3.49	15.6	12.5	9	very high
Dorchester Gas	14½	1.01	1.01a	1.13	11.9	12.8	6	low
Dover	29½	2.52	2.12	2.76	30.2	10.7	7	average
Dow Chemical	36½	1.77	2.15	3.52	63.7	10.4	28	low
Dow Jones	48¼	1.41	1.72	2.12	23.3	22.8	13	high
Dravo	13⅜	–0.90	–0.61	0.93	NM	14.5	4	low
Dresser Industries	20⅜	2.19	0.05	1.53	2,960.0	13.3	25	very low
EI du Pont de Nemours	51¾	3.75	4.57	5.88	28.7	8.8	29	average
Duke Power	24⅞	3.07	3.50	3.65	4.3	6.8	22	very high
Dun & Bradstreet	58¾	2.53	2.99	3.59	20.1	16.4	12	very high
Duquesne Light	16½	1.75	2.16	2.24	3.7	7.4	12	very high
EG&G	34⅛	1.38	1.61	1.98	23.0	17.2	10	very high
E-Systems	35	1.21	1.61	1.93	19.9	18.1	19	very high
Eastern Air Lines	6	–3.82	–3.31	–0.13	NM	NM	11	very low
Eastern Gas & Fuel Assocs	24⅝	2.91	1.57	2.50	59.2	9.8	14	very low
Eastman Kodak	69½	7.12	4.76	6.86	44.1	10.1	20	average
Eaton	45⅜	0.31	2.52	4.80	90.5	9.5	16	low
Jack Eckerd	26	1.90	1.91a	2.45	28.3	10.6	14	high
El Paso Co	23⅛	1.08	1.69	2.19	29.6	10.5	18	low
El Paso Electric	15⅛	2.30	2.40	2.48	3.3	6.1	5	high
Electronic Data Systems	39½	0.86	1.05a	1.30	23.8	30.4	14	very high
Emerson Electric	60⅞	4.37	4.49	5.29	17.8	11.5	15	very high
Emhart	56¾	6.53	6.51	7.34	12.7	7.7	4	average
Engelhard	36⅝	2.41	2.73	3.64	33.3	10.1	10	low
ENSERCH	22⅝	2.70	1.99	2.66	33.7	8.5	20	average
Entex	21⅛	2.25	2.65a	3.12	17.7	6.8	7	very high
Esmark	86½	6.79	7.00	8.72	24.6	9.9	9	average
Ethyl	26⅝	2.34	2.70	3.16	17.0	8.4	14	average
Evans Products	13¼	–4.11	–1.09	0.88	NM	15.1	4	very low
Ex-Cell-O	39⅞	3.25	3.35	3.90	16.4	10.2	8	average
Exxon	39	4.82	5.19	5.74	10.6	6.8	31	high
FMC	45¾	4.23	4.39	5.52	25.7	8.3	11	high
Federal Express	83½	4.07	5.25	6.22	18.5	13.4	11	very high
Federal Natl Mortgage Assn	25	–2.20	1.63	3.96	142.9	6.3	16	very low
Federated Dept Stores	58	4.79	6.10	7.03	15.2	8.3	21	high
Fidelcor	33¾	5.51	7.18	7.15	–0.4	4.7	3	very high
Financial Corp of America	41	2.40	7.23	8.59	18.8	4.8	4	low
Financial Corp of Santa Barbara	8⅜	–2.23	–1.45	0.40	NM	20.9	3	very low
Firestone Tire & Rubber	20⅞	0.04	2.06	2.89	40.3	7.2	10	average
First & Merchants	30⅛	4.41	4.74	5.15	8.6	5.9	3	average
First American	19⅜	2.76	2.97	3.30	11.1	5.9	4	very high
First Atlanta	22	2.72	2.91	3.29	13.1	6.7	7	very high
First Bank System	55¼	7.37	7.90	8.67	9.7	6.4	20	high
First Chicago	25¼	3.52	3.85	4.34	12.7	5.8	25	high
First City Bancorp Texas	19⅜	3.90	3.27	3.84	17.4	5.1	16	average
First Interstate Bancorp	45⅝	5.52	5.90	6.75	14.4	6.8	26	high

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		1982	1983 estimates	1984 estimates		P/E	number of analysts	confidence factor
First Kentucky Natl	28¼	$2.96	$3.24	$3.57	10.2%	7.9	5	high
First Tennessee Natl	22⅝	3.31	3.34	3.85	15.3	5.9	5	high
First Union	41	5.01	5.60	6.05	8.0	6.8	9	average
First Wisconsin	22¼	3.53	3.76	4.18	11.2	5.3	3	high
Fischbach	42¼	7.59	7.84	7.83	–0.1	5.4	6	average
Fleet Financial Group	47¼	6.36	6.57	7.41	12.8	6.4	6	average
Fleming Cos	29	1.98	2.34	2.66	13.7	10.9	7	high
Flickinger	26	2.10	2.42a	2.77	14.5	9.4	3	very high
Florida Power & Light	40	4.77	5.20	5.45	4.8	7.3	22	very high
Fluor	18	1.94	1.19	1.66	39.5	10.9	13	very low
Ford Motor	66	–6.22	12.38	16.10	30.0	4.1	18	low
Fort Howard Paper	59¼	3.43	3.83	4.42	15.4	13.4	19	high
Foster Wheeler	16⅜	1.67	1.41	1.51	7.1	10.9	10	average
Freeport-McMoRan	20⅜	0.95	1.34	2.23	66.4	9.1	16	very low
Fruehauf	46⅞	–2.47	0.43	6.24	1,351.2	7.5	5	average
GATX	33¾	2.41	1.43	2.61	82.5	13.0	9	low
GEICO	58½	3.83	4.54	5.27	16.1	11.1	16	average
GTE	45⅛	4.70	5.06	5.62	11.1	8.0	22	high
Gannett	60½	3.39	3.64	4.45	22.3	13.6	16	very high
Gelco	18⅜	2.51	–0.87a	1.52	NM	12.1	9	very low
General Cinema	43¾	2.38	3.03	3.52	16.2	12.4	15	very high
General Dynamics	54	2.41	5.01	6.10	21.8	8.9	20	average
General Electric	53⅜	4.00	4.49	5.15	14.7	10.4	21	high
General Foods	50⅜	5.73	6.21	6.83	10.0	7.4	17	very high
General Instrument	33¼	3.34	2.18	3.41	56.4	9.7	12	low
General Mills	50¾	4.89	5.49	6.19	12.8	8.2	12	very high
General Motors	76¾	3.09	11.03	15.27	38.4	5.0	18	average
General Public Utilities	7⅝	0.55	0 75	1.40	86.7	5.5	11	low
General Re	65	4.66	5.01	5.65	12.8	11.5	19	high
General Signal	45⅞	3.85	3.33	4.21	26.4	10.9	13	high
General Tire & Rubber	36⅛	1.13	2.76	4.71	70.7	7.7	9	low
Genuine Parts	44¼	2.77	3.03	3.67	21.1	12.1	17	high
Georgia-Pacific	25⅝	0.48	1.73	2.92	68.8	8.8	22	low
Getty Oil	69⅜	8.61	6.85	8.67	26.6	8.0	27	high
Giant Food	18⅜	2.53	2.80	3.17	13.2	5.8	3	average
Gibraltar Financial Corp of Calif	12	–1.91	1.98	2.89	46.0	4.2	10	low
Gillette	49⅞	4.45	4.84	5.61	15.9	8.9	14	high
Global Marine	10⅛	2.71	1.38	–1.02	NM	NM	13	very low
Golden West Financial	23⅞	–0.97	3.40	4.22	24.1	5.7	14	low
BF Goodrich	29¾	–2.43	2.19	4.92	124.7	6.1	13	very low
Goodyear Tire & Rubber	31⅛	3.35	3.26	4.56	39.9	6.8	10	low
Gould	30½	2.15	1.91	2.64	38.2	11.6	13	average
WR Grace	47⅝	5.27	4.10	5.18	26.3	9.2	14	low
WW Grainger	59¾	3.50	3.46	4.44	28.3	13.5	15	average
Great Northern Nekoosa	53¾	5.06	5.07	6.08	19.9	8.9	16	low
Great Western Financial	24¼	–2.68	2.35	4.27	81.7	5.7	14	low
Greyhound	23¼	2.29	2.51	3.16	25.9	7.4	12	average
Grumman	28¾	2.09	3.67	4.36	18.8	6.6	14	high
Gulf & Western Industries	26⅞	2.24	3.25a	3.29	1.2	8.2	9	average
Gulf Oil	45⅜	4.98	4.99	5.58	11.8	8.1	30	average
Gulf States Utilities	14⅞	1.95	2.27	2.34	3.1	6.4	15	high
Gulf United	28¾	3.11	3.26	3.53	8.3	8.1	5	high
Halliburton	41⅞	4.21	2.97	4.08	37.4	10.3	27	low
Hammermill Paper	41⅞	3.07	2.77	4.91	77.3	8.5	7	low
Harris Bankcorp	71¾	6.07	5.82	6.40	10.0	11.2	5	average
Harris Corp	36¾	2.42	1.78a	2.43	36.5	15.1	23	low
Hartford National	34¾	4.46	5.76	6.43	11.6	5.4	3	average

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Peering into the crystal ball: a look at 1984 earnings

Company	Recent price	Earnings per share* 1982	1983 estimates	1984 estimates	% change 1984 vs. 1983 estimates	1984 estimate P/E	number of analysts	confidence factor
G Heileman Brewing	40	$1.73	$2.21	$2.60	17.6%	15.4	14	high
HJ Heinz	33½	2.94	3.30	3.74	13.3	9.0	11	very high
Walter E Heller Intl	30⅜	1.34	1.78	2.77	55.6	11.0	3	very low
Helmerich & Payne	22⅝	2.98	1.91	1.94	1.6	11.7	17	very low
Hercules	38½	2.06	3.01	3.88	28.9	9.9	24	average
Hershey Foods	33	3.00	3.24	3.63	12.0	9.1	12	very high
Hewlett-Packard	39	1.52	1.63	2.16	32.5	18.1	28	average
Hilton Hotels	54⅛	3.12	3.45	4.40	27.5	12.3	21	high
Holiday Inns	51⅞	2.62	3.26	3.95	21.2	13.1	19	high
Homestake Mining	27⅛	0.51	1.19	1.87	57.1	14.5	11	low
Honeywell	126¾	8.73	9.63	12.43	29.1	10.2	21	average
George A Hormel	29	2.92	2.58	3.68	42.6	7.9	3	very low
Hospital Corp of America	43¼	2.25	2.80	3.45	23.2	12.5	28	very high
Household International	32	2.01	3.27	3.83	17.1	8.4	12	high
Houston Industries	22⅝	1.62	3.80	3.97	4.5	5.7	18	very high
Houston Natural Gas	45⅝	6.46	4.66a	5.71	22.5	8.0	17	average
Hughes Tool	21	2.65	0.06	1.41	2,250.0	14.9	27	very low
Humana	30¼	1.61	1.96a	2.45	25.0	12.3	26	high
EF Hutton Group	34¾	3.46	5.54	5.94	7.2	5.9	5	low
IC Industries	44⅛	2.82	4.00	5.45	36.3	8.1	6	average
IU International	27⅛	1.44	1.90	2.82	48.4	9.6	10	low
Idaho Power	32⅜	4.71	4.17	4.23	1.4	7.7	13	average
Illinois Power	22⅜	3.04	3.19	3.30	3.4	6.8	17	high
Imperial Corp of America	11	−4.30	−0.10	1.81	NM	6.1	11	very low
Indianapolis Power & Light	28½	3.41	3.68	3.83	4.1	7.5	17	high
Ingersoll-Rand	52¼	2.35	−0.03	3.59	NM	14.5	21	very low
Inland Steel	31⅛	−6.27	−1.73	4.38	NM	7.1	16	very low
Intel	37¾	0.32	0.95	1.53	61.1	24.7	24	low
Interco	69⅝	5.22	7.14	8.69	21.7	8.0	7	average
InterFirst	18	4.09	1.85	3.14	69.7	5.7	22	low
Intl Business Machines	130½	7.39	8.93	10.38	16.2	12.6	35	very high
Intl Flavors & Fragrances	32	1.73	1.97	2.34	18.8	13.7	12	average
Intl Harvester	12¼	−51.41	−15.45	−1.84	NM	NM	4	very low
Intl Minerals & Chemical	46¼	5.13	3.02a	3.96	31.1	11.7	17	average
Intl Multifoods	31	4.20	4.61	5.00	8.5	6.2	3	average
Intl Paper	52	2.72	3.40	5.21	53.2	10.0	21	low
Intl Telephone & Tel	41¾	4.75	4.63	5.46	17.9	7.6	17	high
InterNorth	39	3.01	4.77	5.44	14.0	7.2	18	high
Iowa-Illinois Gas & Elec	26⅛	3.95	3.88	4.05	4.4	6.5	4	very high
Irving Bank	50½	9.31	9.99	10.45	4.6	4.8	13	high
Jefferson-Pilot	36⅜	4.02	4.29	4.76	11.0	7.6	20	average
Jewel Cos	51	6.82	6.09	6.82	12.0	7.5	5	high
Johnson & Johnson	45½	2.85	2.82	3.50	24.1	13.0	25	very high
Johnson Controls	44¼	3.83	4.05	4.60	13.6	9.6	6	high
Joy Manufacturing	26⅛	4.27	0.58	1.63	181.0	16.0	20	very low
K mart	36½	2.06	3.28	4.07	24.1	9.0	23	low
Kaiser Alum & Chem	19½	−2.68	−2.00	2.32	NM	8.4	17	very low
Kaneb Services	17	2.62	1.94	1.99	2.6	8.6	9	low
Kansas City Power & Light	32⅝	4.18	4.70	4.78	1.7	6.8	6	high
Kansas Gas & Elec	20⅝	3.00	3.02	3.07	1.7	6.7	9	high
Kansas Power & Light	28⅜	3.60	3.65	3.78	3.6	7.5	12	very high
Kellogg	29¾	2.98	3.13	3.41	8.9	8.7	22	very high
Kemper	40¾	5.30	5.55	6.28	13.2	6.5	12	average
Kentucky Utilities	22⅝	2.78	2.77	2.85	2.9	7.9	9	high
Kerr-McGee	32	3.98	3.31	4.08	23.3	7.8	19	low
Key Pharmaceuticals	28⅜	0.51	0.78	1.15	47.4	24.8	9	average
Kidde	26¼	3.60	3.42	4.18	22.2	6.3	3	very high

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Peering into the crystal ball: a look at 1984 earnings

		Earnings per share*				1984 estimate		
Company	Recent price	1982	1983 estimates	1984 estimates	% change 1984 vs. 1983 estimates	P/E	number of analysts	confidence factor
Kimberly-Clark	94	$8.21	$8.54	$10.12	18.5%	9.3	16	high
Knight-Ridder Newspapers	57	3.14	3.65	4.41	20.8	12.9	19	high
Koppers	17¼	0.20	0.80	1.81	126.3	9.5	11	low
Kroger	36½	4.84	3.64	4.87	33.8	7.5	13	average
LTV	15¾	–3.20	–3.11	2.60	NM	6.1	8	very low
Lear Siegler	42¼	4.16	3.70a	4.60	24.3	9.2	12	high
Levi Strauss	42¾	3.05	4.84	5.65	16.7	7.6	15	high
Eli Lilly	63¾	5.42	6.05	6.79	12.2	9.4	25	very high
Limited	25½	0.57	1.02	1.35	32.4	19.0	7	low
Lincoln National	55¾	5.64	6.61	7.45	12.7	7.5	21	high
Litton Industries	62¼	7.39	5.52a	6.34	14.9	9.8	18	very high
Lockheed	41⅞	3.65	4.19	4.92	17.4	8.5	24	high
Long Island Lighting	14¾	2.70	2.69	2.75	2.2	5.4	15	very high
Longs Drug Stores	44¼	2.92	3.48	3.98	14.4	11.1	11	high
La Land & Exploration	27¼	2.01	2.62	3.13	19.5	8.7	14	low
Louisiana-Pacific	26	−0.52	1.37	2.87	109.5	9.1	17	low
Lowe's Cos	22	0.76	1.38	1.81	31.2	12.1	16	average
Lubrizol	26¾	1.21	1.72	2.17	26.2	12.3	14	average
Lucky Stores	21⅝	1.77	2.32	2.69	15.9	8.1	12	average
M/A-Com	22⅛	0.80	0.86	1.33	54.7	16.6	26	average
MCA	35¼	3.69	3.17	3.35	5.7	10.5	14	average
MCI Communications	14⅛	0.85	1.09	1.32	21.1	10.7	20	low
RH Macy	54⅞	2.74	3.72a	4.42	18.8	12.4	19	average
Malone & Hyde	32½	1.76	2.12a	2.44	15.1	13.3	11	very high
Manufacturers Hanover	38¾	7.82	8.27	8.94	8.1	4.3	24	high
MAPCO	24¼	2.67	2.05	3.08	50.2	7.9	11	average
Marine Midland Banks	22¾	4.61	4.63	5.24	13.2	4.4	5	average
Marriott	70	3.46	4.18	5.14	23.0	13.6	15	high
Marsh & McLennan Cos	44¾	3.36	3.53	4.00	13.3	11.2	14	very high
Martin Marietta	40¾	1.95	3.21	4.42	37.7	9.2	17	low
Mary Kay Cosmetics	21	1.18	1.46	1.73	18.5	12.1	12	average
Maryland National	30¾	5.29	4.84	5.66	16.9	5.4	6	average
Masco	31¾	1.78	1.97	2.72	38.1	11.7	11	average
Mattel	7¼	1.78	−4.60	1.02	NM	7.1	7	very low
May Dept Stores	51½	4.83	5.91	6.75	14.2	7.6	19	very high
McDonald's	66⅛	5.00	5.73	6.61	15.4	10.0	17	very high
McDonnell Douglas	52⅜	5.44	6.25	7.52	20.3	7.0	20	average
McGraw-Edison	37	3.11	2.50	4.04	61.6	9.2	11	average
McGraw-Hill	45½	2.20	2.54	3.02	18.9	15.1	12	very high
Mead	33⅜	−2.38	0.95	3.17	233.7	10.5	13	low
Medtronic	48½	3.34	3.80	4.41	16.1	11.0	9	very high
Mellon National	43⅞	7.25	7.60	8.39	10.4	5.2	16	high
Melville	37¼	2.73	3.29	3.92	19.1	9.5	12	very high
Mercantile Stores	54	4.74	5.68	6.58	15.8	8.2	6	high
Mercantile Texas	28⅞	4.21	4.35	4.86	11.7	5.9	12	high
Merck	100⅞	5.61	6.23	7.14	14.6	14.1	28	very high
Merrill Lynch	31	3.80	4.85	5.24	8.0	5.9	7	low
Mesa Petroleum	15⅜	1.72	1.74	1.71	−1.7	9.0	17	low
Metromedia	28¼	1.52	1.57	2.16	37.6	13.1	10	average
MidCon	38¾	4.50	4.16	4.68	12.5	8.3	10	average
Middle South Utilities	15¾	2.33	2.37	2.48	4.6	6.4	16	high
Minnesota Mining & Mfg	85⅛	5.37	5.99	7.37	23.0	11.6	19	high
Minnesota Power	26¼	3.51	3.54	3.58	1.1	7.3	9	very high
Mission Insurance Group	28⅛	4.01	2.81	3.39	20.6	8.3	18	low
Mitchell Energy & Develop	24⅝	1.68	1.97	2.58	31.0	9.6	17	average
Mobil	31⅛	3.31	3.88	4.64	19.6	6.7	29	average
Monsanto	111	8.21	10.17	12.82	26.1	8.7	29	average

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Peering into the crystal ball: a look at 1984 earnings

Company	Recent price	Earnings per share* 1982	Earnings per share* 1983 estimates	Earnings per share* 1984 estimates	% change 1984 vs. 1983 estimates	1984 estimate P/E	1984 estimate number of analysts	1984 estimate confidence factor
Montana Power	28	$ 3.97	$ 3.95	$ 4.25	7.6%	6.6	13	very high
JP Morgan	66¾	10.67	11.04	12.10	9.6	5.5	28	high
Morrison-Knudsen	30⅜	3.86	3.80	4.11	8.2	7.4	5	average
Morton Thiokol	78	4.21	5.15a	6.24	21.2	12.5	9	high
Motorola	143⅛	4.64	5.73	8.38	46.2	17.1	28	average
Mountain Fuel Supply	28	2.79	2.96	3.22	8.8	8.7	9	average
Murphy Oil	30¾	4.31	3.63	3.94	8.5	7.8	10	low
NCNB	24⅞	3.22	3.64	4.05	11.3	6.2	18	high
NCR	126	8.75	10.44	12.68	21.5	9.9	20	high
NBD Bancorp	39½	6.22	6.72	7.23	7.6	5.5	7	very high
NL Industries	17⅝	3.19	−0.47	1.22	NM	14.5	20	very low
Nabisco Brands	40⅛	4.41	4.84	5.37	11.0	7.5	21	very high
Nalco Chemical	34¼	1.46	1.94	2.41	24.2	14.2	16	average
National Can	25¼	3.29	2.50	3.90	56.0	6.5	7	average
National City	44½	6.02	6.49	6.90	6.3	6.5	7	high
Natl Distillers & Chemical	27¾	2.15	2.23	3.33	49.3	8.3	6	average
National Intergroup	28⅜	−6.25	−3.19	4.87	NM	5.8	11	very low
Natl Medical Enterprises	22⅞	1.47	1.81	2.23	23.2	10.3	6	average
Natl Semiconductor	54	−0.72	1.94	3.14	61.9	17.2	16	very low
National Service Inds	40	3.07	3.37a	3.76	11.6	10.6	4	very high
New England Electric System	39⅝	4.65	5.23	5.31	1.5	7.5	16	high
New York State Elec & Gas	21½	3.36	3.34	3.49	4.5	6.2	15	very high
New York Times	85½	4.31	5.78	6.63	14.7	12.9	14	high
Newmont Mining	49⅜	1.76	2.59	5.04	94.6	9.8	18	very low
Niagara Mohawk Power	17⅝	2.64	2.66	2.76	3.8	6.4	14	very high
NICOR	29½	3.30	2.69	3.45	28.3	8.5	10	low
NIKE	18	1.53	1.86	2.13	14.5	8.5	5	average
Noble Affiliates	16¾	1.49	0.78	1.33	70.5	12.6	19	low
Norfolk Southern	66⅜	6.57	5.59	7.32	30.9	9.1	21	average
North American Philips	71⅝	5.24	6.30	7.14	13.3	10.0	3	high
Northeast Utilities	13¼	1.76	2.13	2.19	2.8	6.1	15	high
Northern Indiana Pub Svc	15	0.90	1.58	1.83	15.8	8.2	17	average
Northern States Power	37	4.79	5.09	5.19	2.0	7.1	20	very high
Northrop	82¾	0.36	6.03	9.65	60.0	8.6	19	low
Northwest Airlines	42	0.23	2.34	4.22	80.3	10.0	21	low
Northwest Bancorp	36⅞	4.02	4.71	5.29	12.3	7.0	22	high
Northwest Energy	38¼	1.87	3.31	3.86	16.6	9.9	12	high
Northwest Industries	39¾	8.75	1.41	4.98	253.2	8.0	7	low
Northwestern Financial	29¾	3.67	3.83	4.15	8.4	7.2	3	high
Norton	42⅜	1.13	2.50	3.73	49.2	11.4	8	average
Occidental Petroleum	25⅛	0.69	0.62	1.52	145.2	16.5	9	very low
Ogden	29⅜	3.01	3.24	4.03	24.4	7.3	5	average
Ohio Casualty	47	4.91	5.50	6.26	13.8	7.5	18	average
Ohio Edison	14⅞	1.89	2.16	2.26	4.6	6.6	17	high
Oklahoma Gas & Elec	19½	2.57	2.56	2.71	5.9	7.2	20	high
Olin	30⅝	2.66	3.29	4.24	28.9	7.2	11	average
ONEOK	29¾	4.88	2.75a	3.99	45.1	7.5	8	average
Overseas Shipholding Group	21¾	2.35	1.82	2.67	46.7	8.2	3	very low
Owens-Illinois	32	1.35	3.23	4.29	32.8	7.5	11	average
PHH Group	32¾	2.19	2.48	2.98	20.2	11.0	6	very high
PNC Financial	42⅛	5.63	5.91	6.62	12.0	6.4	6	very high
PPG Industries	35¼	2.31	3.14	4.00	27.4	8.8	12	average
PACCAR	100	4.11	4.57	10.89	138.3	9.2	9	low
Pacific Gas & Elec	15⅞	2.46	2.32	2.56	10.3	6.2	19	very high
Pacific Lighting	35	4.57	5.04	5.53	9.7	6.3	6	high
Pacific Power & Light	23⅝	3.03	2.82	3.39	20.2	7.0	18	high
Paine Webber	32⅞	1.90	5.85	5.87	0.3	5.6	3	low

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Pall	33⅝	$ 1.40	$1.55a	$1.85	19.4%	18.2	11	very high
Pan American World Airways	7⅝	–6.30	–0.35	0.65	NM	11.7	15	very low
Panhandle Eastern	36½	6.17	3.96	4.86	22.7	7.5	18	average
Parker Drilling	9⅞	2.65	–0.88a	0.12	NM	82.3	21	very low
Parker-Hannifin	29½	2.12	1.17a	2.36	101.7	12.5	14	low
Parsons	23½	1.73	1.84	2.01	9.2	11.7	7	very high
Payless Cashways	22½	0.96	1.29	1.60	24.0	14.1	15	high
Penn Central	38¾	2.73	2.61	2.97	13.8	13.0	7	high
JC Penney	61½	5.73	6.60	7.72	17.0	8.0	21	average
Pennsylvania Power & Light	23¼	3.35	3.32	3.43	3.3	6.8	15	very high
Pennzoil	34⅞	3.60	2.88	4.10	42.4	8.5	18	average
Peoples Energy	9⅝	1.54	1.25	1.36	8.8	7.1	7	average
PepsiCo	34⅝	3.23	3.27	3.89	19.0	8.9	25	average
Perkin-Elmer	34	1.45	1.15a	1.76	53.0	19.3	27	average
Petrolane	15	2.00	–0.28	0.84	NM	17.8	13	very low
Pfizer	41⅛	2.13	2.73	3.25	19.0	12.6	26	high
Phelps Dodge	23¼	–3.59	–0.29	2.61	NM	8.9	19	very low
Phibro-Salomon	27¼	2.48	3.47	4.47	28.8	6.1	11	low
Philadelphia Electric	17⅛	2.39	2.42	2.50	3.3	6.9	12	very high
Philip Morris	69⅜	6.23	7.22	8.40	16.3	8.3	23	very high
Phillips Petroleum	33¼	4.23	4.18	4.75	13.6	7.0	33	average
Pic'n'Save	43½	1.75	2.23	2.70	21.1	16.1	7	high
Pillsbury	73¾	6.39	7.33	8.14	11.1	9.1	12	high
Pioneer	26¼	1.66	2.58	3.19	23.6	8.2	18	average
Pioneer Hi-Bred International	27¾	2.24	1.26	2.51	99.2	11.1	12	average
Pitney Bowes	30⅞	2.16	2.71	3.22	18.8	9.6	13	high
Pittston	16½	–0.31	–0.01	0.79	NM	20.9	14	very low
Pneumo	25¼	1.69	2.38	2.69	13.0	9.4	8	high
Pogo Producing	24⅝	2.05	0.96	1.65	71.9	14.9	9	low
Polaroid	34½	0.73	1.58	2.72	72.2	12.7	16	low
Portland General Electric	14¼	3.02	2.59	2.67	3.1	5.3	8	average
Potlatch	35	0.87	2.35	3.82	62.6	9.2	15	low
Potomac Electric Power	20½	2.28	2.48	2.60	4.8	7.9	20	very high
Premier Industrial	35⅞	1.49	1.88	2.24	19.1	16.0	5	average
Primark	36⅛	3.10	3.45	4.60	33.3	7.9	7	average
Prime Computer	15⅝	0.99	0.72	1.14	58.3	13.8	28	average
Procter & Gamble	57¾	4.70	5.22a	5.72	9.6	10.1	19	very high
Provident Life & Accident	64½	7.16	8.11	9.08	12.0	7.1	8	average
Public Svc Co of Colorado	17⅜	2.17	2.01	2.22	10.4	7.8	20	high
Public Svc Co of Indiana	26	4.55	4.36	4.58	5.0	5.7	19	high
Public Svc Co of New Hampshire	17¼	2.73	2.99	3.04	1.7	5.7	4	average
Public Svc Co of New Mex	28⅞	3.22	3.37	3.54	5.0	8.2	12	high
Public Svc Elec & Gas	24½	3.24	3.25	3.50	7.7	7.0	20	very high
Puget Sound Power & Light	14½	2.29	1.91	2.04	6.8	7.1	7	average
Quaker Oats	57¼	4.76	5.48a	6.58	20.4	8.7	23	very high
RCA	33	2.03	2.13	2.87	34.7	11.5	13	average
Rainier Bancorp	35¼	4.12	4.70	5.29	12.6	6.7	12	high
Ralston Purina	25	1.58	2.47	2.81	13.8	8.9	23	average
Raychem	75½	4.07	3.23a	4.09	26.6	18.5	7	high
Raytheon	43½	3.78	3.71	4.52	21.8	9.6	27	high
Reading & Bates	13⅜	2.35	1.55	1.33	–14.2	10.0	17	very low
Republic Airlines	4	–1.99	–3.89	–0.22	NM	NM	13	very low
Republic Steel	26¾	–15.07	–7.05	3.81	NM	7.0	13	very low
RepublicBank	33⅞	5.65	5.63	6.27	11.4	5.4	21	high
Revco Drug Stores	35½	2.13	2.48	2.79	12.5	12.7	6	high
Revlon	31½	2.41	2.73	3.35	22.7	9.4	17	high
RJ Reynolds Industries	61¾	6.96	7.34	8.25	12.4	7.5	23	high

*For fiscal years ending June through May of the following year. a: Actual 1983 earnings. NM: Not meaningful.

Source: Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan via Micro/Scan from ISYS Corp.

Peering into the crystal ball: a look at 1984 earnings

Company	Recent price	Earnings per share*			% change 1984 vs. 1983 estimates	1984 estimate		
		1982	1983 estimates	1984 estimates		P/E	number of analysts	confidence factor
Reynolds Metals	37⅞	$-0.98	$-2.96	$3.24	NM	11.7	19	very low
Richardson-Vicks	28⅜	2.74	2.10a	2.72	29.5%	10.4	9	low
Rite Aid	39⅞	2.37	2.84	3.31	16.5	12.1	11	very high
Roadway Services	68¼	3.83	4.85	5.64	16.3	12.1	20	high
AH Robins	26	1.98	2.43	2.79	14.8	9.3	17	high
Rochester Gas & Elec	17¼	2.81	3.05	3.17	3.9	5.4	5	very high
Rockwell Intl	30¾	2.11	2.41	3.02	25.3	10.2	18	high
Rohm & Haas	74¼	3.31	5.06	6.19	22.3	12.0	18	average
Rollins Inc	17	1.70	0.80a	1.00	25.0	17.0	7	very low
ROLM	55¼	1.70	1.80a	2.25	25.0	24.6	23	average
Rowan Cos	11⅝	2.36	0.65	0.50	–23.1	23.5	18	very low
Safeco	57¾	5.73	6.32	7.01	10.9	8.2	26	average
Safeway Stores	27¾	3.05	3.26	3.84	17.8	7.1	11	high
St Paul Cos	57½	9.23	7.93	8.69	9.6	6.6	23	average
St Regis Paper	29⅞	1.29	1.92	3.57	85.9	8.4	18	low
San Diego Gas & Elec	19⅝	2.90	2.85	3.03	6.3	6.5	14	very high
Santa Fe Industries	30	2.08	2.79	3.40	21.9	8.8	18	average
Schering-Plough	41⅜	3.39	3.57	4.00	12.0	10.3	27	high
SCM	31⅞	3.01	3.15a	4.55	44.4	7.0	8	average
SCOA Industries	31⅝	1.92	2.30	3.11	35.2	10.2	5	average
Scott Paper	28¾	1.61	2.40	3.22	34.2	8.9	13	average
GD Searle	51⅝	2.77	2.77	3.61	30.3	14.3	25	average
Sears, Roebuck	38¼	2.46	3.50	4.22	20.6	9.1	22	average
Security Pacific	48⅞	6.53	7.06	7.85	11.2	6.2	26	very high
SEDCO	36¾	3.86	6.04a	5.23	–13.4	7.0	23	average
Sensormatic Electronics	31½	0.93	1.21	1.64	35.5	19.2	6	average
Service Merchandise	23½	1.20	1.53	1.92	25.5	12.2	12	low
Servicemaster Industries	35	0.98	1.19	1.45	21.8	24.1	12	very high
Shared Medical Systems	36⅞	0.88	1.10	1.37	24.5	26.9	19	very high
Shawmut	37	5.84	5.03	6.08	20.9	6.1	3	low
Shell Oil	45⅛	5.19	4.94	5.66	14.6	8.0	33	average
Sherwin-Williams	24¾	1.78	2.13	2.63	23.5	9.4	8	average
Signal Cos	32⅞	1.56	0.96	3.08	220.8	10.7	10	average
Singer	25⅜	–1.62	1.44	3.05	111.8	8.3	14	low
Smith Intl	26½	3.61	–0.28	1.57	NM	16.9	28	very low
SmithKline Beckman	66¾	5.51	6.15	6.95	13.0	9.6	27	very high
Society	28½	4.59	4.84	5.27	8.9	5.4	3	high
SONAT	38½	5.05	5.18	5.18	0.0	7.4	21	average
South Carolina Elec & Gas	19⅞	2.32	2.43	2.50	2.9	8.0	13	high
Southeast Banking	24¼	2.81	3.25	3.69	13.5	6.6	13	average
Southern California Edison	39	5.13	5.97	6.01	0.7	6.5	24	very high
Southern Co	16¾	2.26	2.35	2.49	6.0	6.7	20	very high
Southern New England Tel	35¼	3.06	4.01	4.01	0.0	8.8	10	average
Southern Pacific	37¾	2.15	3.09	3.82	23.6	9.9	13	low
Southland Corp	41⅝	2.94	3.32	4.86	46.4	8.6	14	low
Southland Royalty	18	0.64	0.79	0.99	25.3	18.2	13	low
Southwest Airlines	32¾	1.60	1.94	2.69	38.7	12.2	18	average
Southwest Bancshares	27⅞	4.31	3.07	4.04	31.6	6.9	7	average
Southwestern Public Svc	19¼	2.02	2.36a	2.44	3.4	7.9	13	very high
Sperry	44⅞	2.36	3.94	5.60	42.1	8.0	12	average
Square D	35⅛	2.61	2.25	3.26	44.9	10.8	11	high
Squibb	50⅝	3.01	3.31	3.80	14.8	13.3	27	very high
AE Staley Manufac	23½	2.75	0.54	2.85	427.8	8.3	15	low
Standard Oil of California	37⅛	4.03	4.57	5.33	16.6	7.0	31	average
Standard Oil (Indiana)	50	6.25	6.23	6.99	12.2	7.2	32	high
Standard Oil Ohio	53½	7.63	6.82	7.64	12.0	7.0	30	high
Stanley Works	23¼	1.34	1.80	2.51	39.4	9.3	11	high

*For fiscal years ending June through May of the following year. a: Actual 1983 earnings. NM: Not meaningful.

Source: Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan via Micro/Scan from ISYS Corp.

Peering into the crystal ball: a look at 1984 earnings

		Earnings per share*				1984 estimate		
Company	Recent price	1982	1983 estimates	1984 estimates	% change 1984 vs. 1983 estimates	P/E	number of analysts	confidence factor
State Street Boston	31¾	$4.38	$4.39	$4.97	13.2%	6.4	4	average
Stauffer Chemical	28½	2.81	1.05	3.02	187.6	9.5	22	low
Sterling Drugs	27¾	2.17	2.27	2.54	11.9	10.9	26	very high
JP Stevens	17½	1.54	1.12	2.46	119.6	7.1	7	low
Stop & Shop Cos	61¼	3.44	4.38	5.23	19.4	11.7	3	high
Storage Technology	17½	1.84	0.48	1.27	164.6	13.7	17	very low
Sun Banks of Florida	28⅛	3.03	3.30	3.73	13.0	7.6	14	high
Sun Co	44⅛	4.40	4.32	4.84	12.0	9.1	26	average
Sundstrand	43½	3.77	2.50	4.15	66.0	10.5	12	average
Super Valu Stores	33⅜	1.85	2.27	2.69	18.5	12.4	11	high
Superior Oil	33⅜	1.75	1.34	1.94	44.8	17.2	22	low
Supermarkets Genl	22⅞	2.11	2.46	2.89	17.5	7.9	7	average
Swift Independent	30⅝	5.07	4.61	5.75	24.7	5.3	5	average
Sysco	36¾	1.71	1.94a	2.29	18.0	16.0	14	very high
TECO Energy	25⅛	2.49	3.10	3.30	6.5	7.6	18	high
TRW	74⅞	4.73	5.32	6.79	27.6	11.0	15	high
Tampax	52⅞	3.84	4.58	5.20	13.5	10.2	12	very high
Tandem Computers	34	0.76	0.80	1.30	62.5	26.1	27	average
Tandon	21½	0.36	0.65	1.10	69.2	19.6	17	low
Tandy	36	2.17	2.67a	3.24	21.3	11.1	27	high
Tektronix	78¾	2.57	4.48	6.30	40.6	12.5	9	average
Teledyne	169	12.62	15.69	19.09	21.7	8.9	7	very high
Tenneco	41	5.73	5.41	6.38	17.9	6.4	23	high
Texaco	37⅜	4.92	5.28	5.92	12.1	6.3	32	averagre
Texas Air	6⅛	−7.27	−4.64	0.78	NM	7.9	9	very low
Texas American Bancshares	35½	4.96	4.38	5.07	15.8	7.0	6	average
Texas Commerce Bancshares	39⅞	5.35	5.67	6.25	10.2	6.4	21	very high
Texas Eastern	61¾	7.08	6.35	7.69	21.1	8.0	22	average
Texas Gas	50½	5.49	4.87	5.54	13.8	9.1	9	very high
Texas Instruments	116⅜	6.10	−0.11	10.22	NM	11.4	26	low
Texas Oil & Gas	43⅜	2.35	2.81a	3.37	19.9	13.0	25	very high
Texas Utilities	25¾	3.85	3.97	4.16	4.8	6.2	22	very high
Textron	36	2.02	2.66	3.61	35.7	10.0	10	average
Third National	38½	4.87	5.54	6.23	12.5	6.2	4	high
Thrifty Corp	18⅞	0.92	1.27a	1.38	8.7	13.7	3	very high
Tidewater	21⅝	3.07	1.68	2.45	45.8	8.8	12	low
Tiger International	5⅝	−8.04	−3.47	0.69	NM	8.2	3	very low
Time Inc	66	2.45	3.14	4.47	42.4	14.8	17	average
Times Mirror	81¾	4.09	5.09	6.50	27.7	12.6	21	high
Timken	60½	−0.27	0.58	4.78	724.1	12.7	5	low
Toledo Edison	20¾	3.18	3.20	3.31	3.4	6.3	7	very high
Torchmark	37¾	4.01	4.48	5.01	11.8	7.5	14	very high
Tosco	4⅞	0.64	−2.29	2.25	NM	2.2	6	very low
Toys "R" Us	42⅝	1.17	1.57	2.03	29.3	21.0	14	high
Trans World	30½	0.25	1.25	3.78	202.4	8.1	16	very low
Transamerica	28⅝	2.86	3.06	3.87	26.5	7.4	15	average
Transco Energy	38½	5.26	4.79	5.36	11.9	7.2	20	average
TRANSOHIO Financial	10⅛	−6.40	1.00	1.21	21.0	8.4	4	very low
Travelers	31¼	3.67	4.02	4.55	13.2	6.9	23	average
Trust Co of Georgia	40	3.86	4.54	5.15	13.4	7.8	4	very high
Tucson Electric Power	35⅞	3.11	3.90	4.37	12.1	8.2	16	average
UAL	29⅛	0.36	2.55	4.33	69.8	6.7	19	low
USF&G	55¼	3.98	5.32	5.99	12.6	9.2	20	low
Union Camp	70	5.10	5.65	7.34	29.9	9.5	20	average
Union Carbide	64⅜	4.47	4.48	7.62	70.1	8.5	29	low
Union Electric	15½	2.17	2.42	2.49	2.9	6.2	12	high
Union Oil Co of Calif	29¾	4.63	3.94	4.73	20.1	6.3	35	average

*For fiscal years ending June through May of the following year. a: Actual 1983 earnings. NM: Not meaningful.

Source: Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan via Micro/Scan from ISYS Corp.

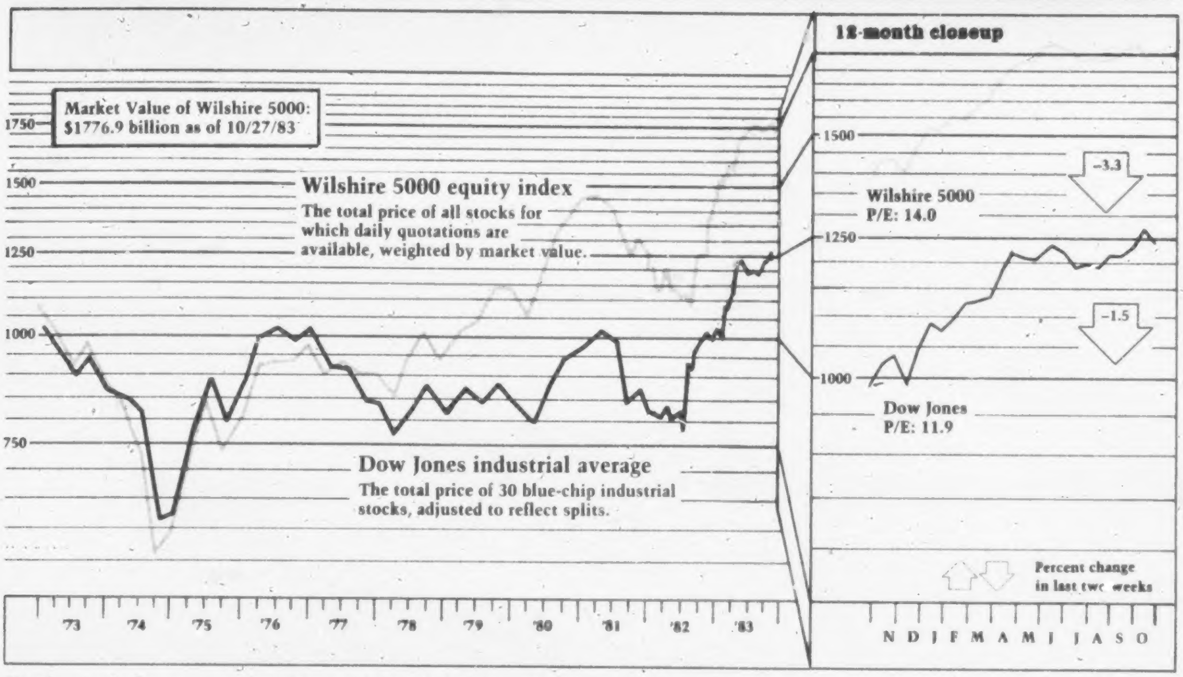
Peering into the crystal ball: a look at 1984 earnings

Company	Recent price	Earnings per share* 1982	Earnings per share* 1983 estimates	Earnings per share* 1984 estimates	% change 1984 vs. 1983 estimates	1984 estimate P/E	1984 estimate number of analysts	1984 estimate confidence factor
Union Pacific	57½	$3.38	$3.77	$4.86	28.9%	11.8	22	average
Uniroyal	16¾	0.78	1.64	2.38	45.1	7.0	7	low
United Banks of Colorado	17¾	2.43	2.69	3.12	16.0	5.7	4	high
United Energy Resources	27¾	6.42	3.99	4.87	22.1	5.7	16	low
USAir Group	28¼	2.88	2.98	3.93	31.9	7.2	19	low
US Bancorp	25⅝	2.92	3.22	3.71	15.2	6.9	15	high
United States Gypsum	48¾	2.60	3.88	6.00	54.6	8.1	12	low
US Shoe	38¾	2.72	3.42	4.00	17.0	9.7	13	high
United States Steel	28⅜	–3.99	–2.86	3.42	NM	8.3	17	very low
US Tobacco	35¾	2.01	2.43	2.83	16.5	12.6	12	very high
United Technologies	65⅜	6.41	7.55	8.81	16.7	7.4	23	high
United Telecommunications	23⅜	2.49	2.75	3.10	12.7	7.5	21	high
United Virginia Bankshares	30⅞	3.88	4.28	4.70	9.8	6.6	4	very high
Universal Leaf Tobacco	39⅞	3.93	4.21a	4.89	16.2	8.2	8	high
Upjohn	59¾	4.18	4.97	5.61	12.9	10.7	26	average
USLIFE	26⅜	3.71	3.74	4.24	13.4	6.2	15	average
Utah Power & Light	23½	2.38	2.48	2.57	3.6	9.1	17	high
VF	65¾	5.63	7.08	8.10	14.4	8.1	8	very high
Valero Energy	23¾	3.21	2.51	4.21	67.7	5.7	9	low
Valley National	22¼	3.03	2.90	3.40	17.2	6.6	14	high
Varian Associates	52½	1.48	2.05	2.66	29.8	19.7	15	average
Virginia Natl Bankshares	33¾	4.48	4.84	5.37	11.0	6.3	4	very high
Vulcan Materials	60½	4.73	4.42	6.34	43.4	9.5	9	average
Wachovia	45⅜	4.85	5.35	5.89	10.1	7.7	25	high
Wal-Mart Stores	40¼	0.91	1.32	1.72	30.3	23.4	15	average
Walgreen	37⅛	1.86	2.17	2.58	18.9	14.4	12	high
Jim Walter	35¼	1.74	3.94	5.56	41.1	6.3	15	average
Wang Laboratories	32¾	0.88	1.16a	1.58	36.2	20.7	28	average
Warner Communications	22⅝	3.96	–2.88	2.11	NM	10.7	15	very low
Warner-Lambert	30	2.05	2.48	2.85	14.9	10.5	26	very high
Washington Post	67¼	3.70	4.52	5.47	21.0	12.3	13	high
Washington Water Power	20¾	3.17	3.04	3.18	4.6	6.5	6	high
Waste Management	42¼	2.40	2.68	3.65	36.2	11.6	12	average
Wells Fargo	38⅜	5.93	5.80	6.34	9.3	6.1	24	high
Wendy's International	16⅝	1.13	1.32	1.54	16.7	10.8	14	high
West Point-Pepperell	48¼	4.14	4.86	5.77	18.7	8.4	10	average
Western Co of North Amer	10⅝	1.27	–0.21	0.27	NM	39.0	19	very low
Western Union	31⅞	3.34	3.67	4.11	12.0	7.8	11	low
Westinghouse Elec	48⅝	5.16	4.92	6.15	25.0	7.9	18	average
Westvaco	32	2.40	2.22	3.49	57.2	9.2	15	average
Wetterau	19⅝	1.91	2.13	2.48	16.4	7.9	5	high
Weyerhaeuser	34⅛	0.90	1.65	3.28	98.8	10.4	24	low
Whirlpool	48⅛	3.83	4.54	5.55	22.2	8.7	12	very high
White Consolidated Industries	42½	2.06	2.89	4.29	48.4	9.9	10	average
Whittaker	30	3.77	2.55	4.37	71.4	6.9	8	low
Willamette Industries	36¼	0.35	1.97	3.70	87.8	9.8	16	low
Williams Cos	26⅝	1.15	1.21	2.56	111.6	10.4	14	very low
Winn-Dixie Stores	49¼	4.18	4.54a	4.98	9.7	9.9	9	very high
Wisconsin Electric Power	27	3.60	3.72	3.85	3.5	7.0	25	very high
Wisconsin Power & Light	28¼	3.51	3.64	3.82	4.9	7.4	13	very high
Witco Chemical	32¼	2.03	3.19	3.94	23.5	8.2	8	very high
FW Woolworth	36⅞	1.40	3.50	4.32	23.4	8.6	12	average
Wyman-Gordon	34½	2.95	2.42	3.06	26.4	11.3	9	low
Xerox	47¾	4.47	4.60	5.80	26.1	8.2	19	average
Zapata	18⅛	4.73	2.71	1.53	–43.5	11.8	12	very low
Zayre	43	2.26	3.13	3.84	22.7	11.2	12	average
Zenith Radio	30⅞	–1.15	2.20	2.96	34.5	10.4	8	average
Zion Utah Bancorp	32¼	3.86	4.29	4.87	13.5	6.6	3	average

*For fiscal years ending June through May of the following year. a: Actual 1983 earnings. NM: Not meaningful.

Source: Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan via Micro/Scan from ISYS Corp.

The Forbes/Wilshire 5000 Review



Weakness before strength. The troubles of the secondary issues have finally caught up with the blue chips. The Wilshire index peaked on June 24 and is now off some 5.5%. But over this same period the blue chip Dow remained flat, the Amex lost 13.3% and NASDAQ weathered a 15.6% decline. Over the last two weeks the Dow industrials fell 1.5% and the NYSE declined 3%. Amex shares, meanwhile, were off 6.5% and NASDAQ stocks suffered a 4.5% loss. The Wilshire dropped 3.3%.

The market is showing little mercy for companies with disappointing earnings. The decline in issues such as Digital Equipment seems to have sobered investors. And with year's end approaching, additional profit taking and tax-loss selling may make the mood even more gloomy.

The longer-term outlook, nonetheless, is still encouraging. The major automakers have reported healthy third-quarter profits, as have Pan American and UAL in the troubled airlines group. The decline in the major indicators has also brought the market's overall price-to-earnings multiple down. The Dow industrials are now selling at 11.9 times latest 12-month earnings, and the Wilshire multiple is 14. What's more, if security analysts are correct, 1984 should be a very profitable year for most major corporations *(see story, p. 212).*

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-2.7	-1.0	0.2	-1.9	-8.1	-7.3
in last 52 weeks	25.2	23.4	25.3	23.7	34.0	31.0

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	-2.4	-6.5	-6.8	-0.7	-7.8	-6.0	0.2	-6.1	-8.2	-0.5	-1.8	-7.1
in last 52 weeks	25.7	90.7	74.0	38.1	48.7	84.5	34.4	81.5	83.5	37.1	37.0	84.1

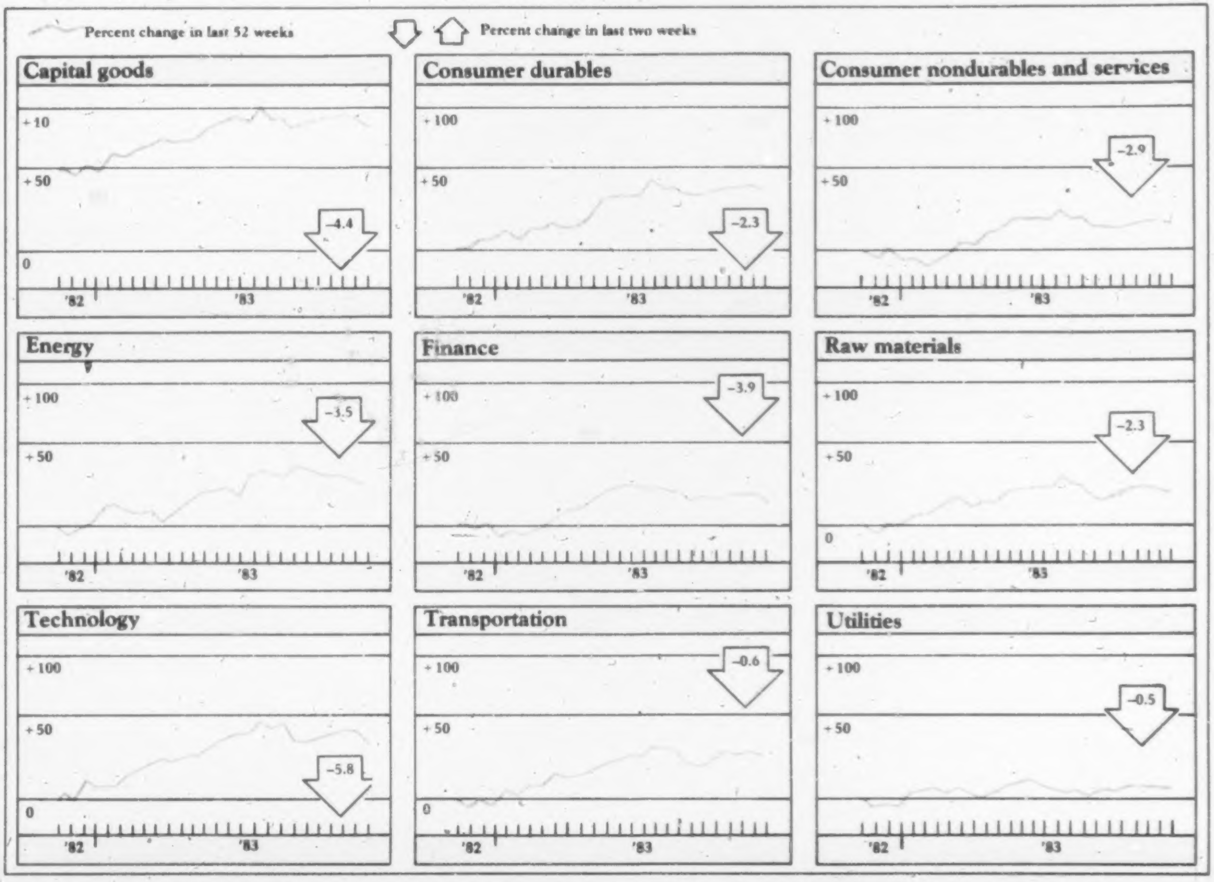
[1] Based on sales.
[2] A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3] A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 10/27/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

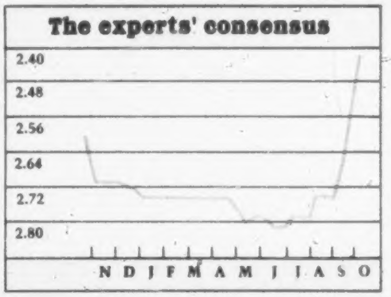
Reverse technology. The technology sector took another step backward, with a 5.8% two-week loss. With giant IBM flexing its muscle in microcomputers, investors are worried about prospects for the competition. Capital goods, with a 4.4% decline, was the second-poorest-performing group. The finance and energy sectors, meanwhile, registered two-week losses of 3.9% and 3.5%, respectively. As expected, most of the major brokerage firms reported lower earnings. And the oils have lost much of their summer sizzle.

Some investors sought refuge in utilities. Others liked some favorable airlines' earnings reports, which boosted the transportation sector. These two groups posted the slimmest losses over the last two weeks.



What The Analysts Think

Another plug for utilities. Even though utilities have been ranked first for months, analysts have become even more bullish of late. In fact, despite the declining market, the experts have raised their buy opinions on seven of the nine Wilshire sectors. Only the consumer nondurables and finance sectors show minor setbacks.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	1.79	1	1
2	Consumer durables	2.28	2	4
3	Raw materials	2.33	3	2
4	Transportation	2.40	4	6
5	Technology	2.42	5	9
6	Consumer nondurables	2.51	6	7
7	Capital goods	2.51	7	3
8	Energy	2.53	8	8
9	Finance	2.81	9	5

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 10/27/83. Prepared by Wilshire Associates, Santa Monica, Calif.

DECEMBER 5, 1983 THREE DOLLARS

Forbes

BRAZIL AND THE BANKS

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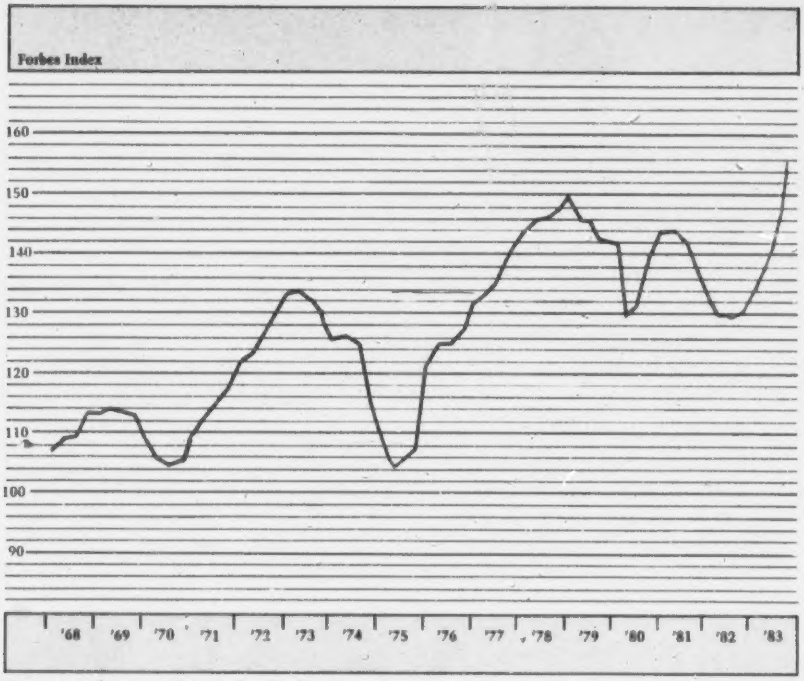
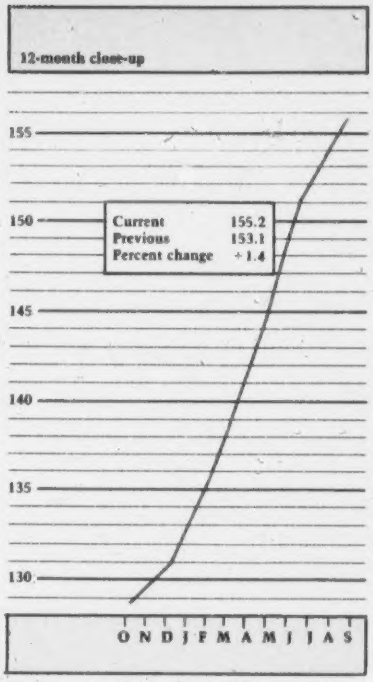
The Forbes Index





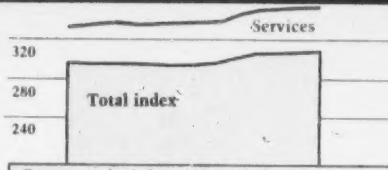
New territory. The Forbes Index hit a record high, thanks largely to the gains in new housing starts and the drop in unemployment claims. A 0.7% month-to-month jump in consumer installment credit—a sign that people may be borrowing and buying in force—gave the Index an upward nudge. In addition, inventories are 6.3% lower than they were at the same time last year. Manufacturers' new orders were up 1.1% from previously revised figures, and inventories posted a 0.4% gain. But these three positive signs weren't strong enough to pull up the Index, which uses them as part of a moving average.

Slight downward revisions of two previously reported components tempered the rise of the Index, too. Retail sales now show a 1.3% month-to-month gain. And the drop in new unemployment claims is only 5%, rather than the 5.4% that was reported earlier.

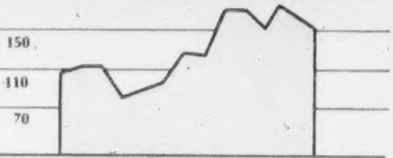
The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

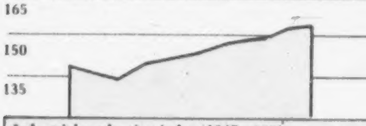
To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series is presented at right.



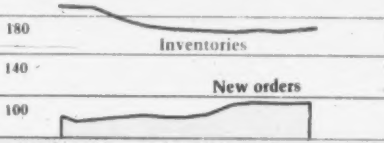
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)



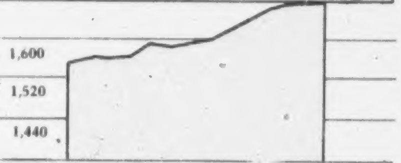
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



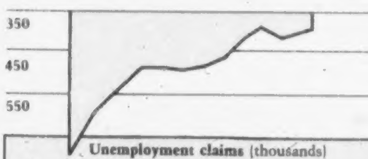
Industrial production index (1967 = 100) Seasonally adjusted (Federal Reserve)



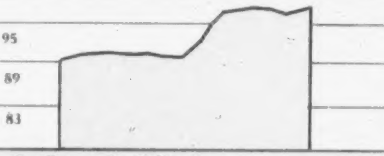
Manufacturers new orders and inventories ($billions) seasonally (Dept. of Commerce)



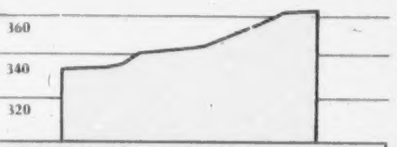
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims (thousands) seasonally adjusted (Dept. of Labor)



Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

Brazil can't pay the interest on its $90 billion debt. So why are bankers pretending that it can? They would be better off wiping the slate clean and starting over—next time more cautiously.

Games bankers play

By Norman Gall

DOES ANYBODY remember President Calvin Coolidge's annoyed response when he was told the British and French were suspending payments on the money they borrowed from the U.S. to fight World War I?

"They hired the money, didn't they?"

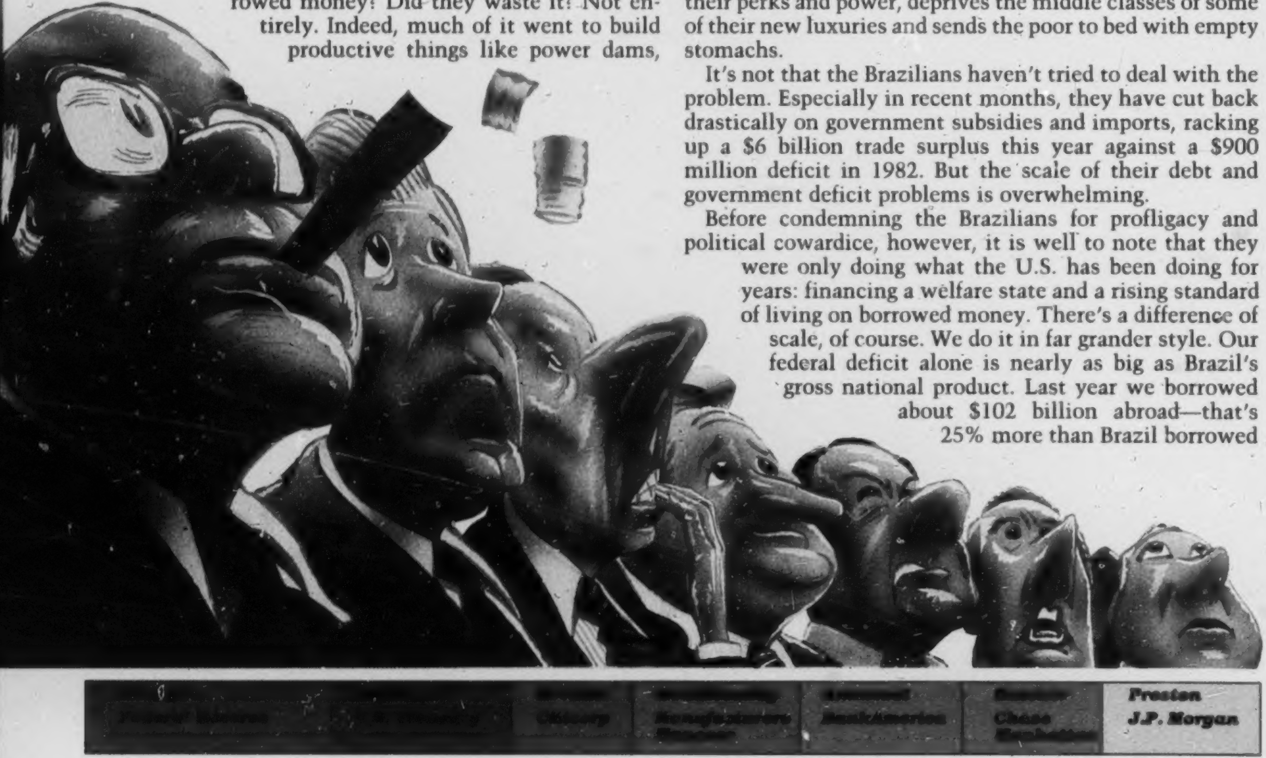
Oh, yes, they hired the money, but the proceeds were fired out the muzzles of cannons and our old allies never paid most of it back. Nor will Brazil ever pay back at anything like 100 cents on the dollar, with interest, the $90-odd billion it owes to foreign banks, exporters and governments. Beyond that it is doubtful whether Brazil can honor its domestic government debt, which has trebled in the past year alone, swollen by—and contributing to—Brazil's runaway inflation.

What did the Brazilians do with the borrowed money? Did they waste it? Not entirely. Indeed, much of it went to build productive things like power dams, steel mills, ports, fertilizer factories, airports and a telecommunications network. Too much of it, however, went for things of little productive value. For example, vast handouts to the working class, to the middle class, to the wealthy. These handouts helped this nation of 126 million people accept two decades of unpopular military rule. But now the bill has come due.

And therein lies a major part of the international debt problem, involving $700 billion in loans and credits and the solvency of some major American banks: How do you pay interest on money, lots of money, money that has been eaten or spent on trips abroad or on expanding the bureaucracy? Only by asking people to eat less for a while, traveling abroad less and firing bureaucrats. Not easy. Not pleasant. It's the kind of medicine that costs politicians their perks and power, deprives the middle classes of some of their new luxuries and sends the poor to bed with empty stomachs.

It's not that the Brazilians haven't tried to deal with the problem. Especially in recent months, they have cut back drastically on government subsidies and imports, racking up a $6 billion trade surplus this year against a $900 million deficit in 1982. But the scale of their debt and government deficit problems is overwhelming.

Before condemning the Brazilians for profligacy and political cowardice, however, it is well to note that they were only doing what the U.S. has been doing for years: financing a welfare state and a rising standard of living on borrowed money. There's a difference of scale, of course. We do it in far grander style. Our federal deficit alone is nearly as big as Brazil's gross national product. Last year we borrowed about $102 billion abroad—that's 25% more than Brazil borrowed



over the past ten years.

So, why is Brazil suffering over 200% annual inflation and unable to pay its loans, while the U.S. in its worst year had only 13% inflation and has no trouble servicing its debts? Scale again. American profligacy is supported by a far bigger and stronger economy. But, in many senses, the two countries, indeed most countries today, are sisters and brothers under the skin. The details differ, but the plot is always the same. They call it populism and mortgage the future to pay for it. For Brazil today the mortgage is due, with repayment now accelerated by high interest rates. And there is nothing much to pay it with.

How did Brazil get in such a fix? It's an old story, well described in a League of Nations report on the great Central European inflations of the 1920s: "Inflation is the form of taxation which even the weakest government can enforce, when it can enforce nothing else."

That's the key to the Brazilian mess, indeed the whole international lending mess: Printing money to monetize debt is easy for any modern government. It enables a government to spend freely without seeming to tax. And the public will blame some mysterious force called "inflation" rather than government spending and credit creation itself.

Which helps explain, of course, why inflation and seeming prosperity so often go hand in hand. When U.S. inflation was beginning to slip out of control in 1979, the U.S. was wallowing in a consumption-oriented economic boom highlighted by a virtual orgy of home buying. In the midst of Brazil's spreading financial chaos, its real economy seems to be standing up surprisingly well.

As did Germany in the half-century before 1914, Brazil in the half-century through 1982 went through an extraordinary process of fast economic development, national unification and creation of a large middle class. In 1960 only 1 in 29 Brazilian families had a private car. By 1980 1 in every 4 families had one. All this was accompanied by a high rate of inflation and monumental borrowing abroad. Everybody sensed that inflation and foreign borrowing on that scale were dangerous, but nearly everybody seemed to be gaining from it.

The first oil crisis hit Brazil hard, but foreign loans enabled the Brazilians to pay their huge oil import bill without slowing economic growth. Thus its economy grew by 7% per annum from 1974 to 1980, while the economies of the industrial countries were languishing at 2.5% growth.

So, not all the borrowed money was wasted. Brazil's newly expanded steel industry, faced with reduced home demand, is making major gains in export markets. Farm production has been expanding steadily over the past four years, and, despite crop losses from this year's floods in southern Brazil, the export sector is gearing up for a windfall in soybean earnings (FORBES, *Aug. 30, 1982*), thanks to this year's drought in the U.S. Midwest. Tractor sales are booming as acreage expands into new frontier areas, and increased demand is creating shortages in machinery, seeds and fertilizer.

The crisis and the consequent tightening of the money supply has brought riots in big cities, but many provincial towns seem stable and prosperous. A gold rush in Amazonia has brought hundreds of thousands of men to dig and pan in jungle streams.

Near the gold rush country in the colonial port of São Luis at the edge of Amazonia, Alcoa is building a $1 billion alumina-aluminum complex, to be fed by the region's rich bauxite and hydropower resources. When it is finished next year the plant will become a principal supplier to the U.S. and thus a major source of foreign exchange.

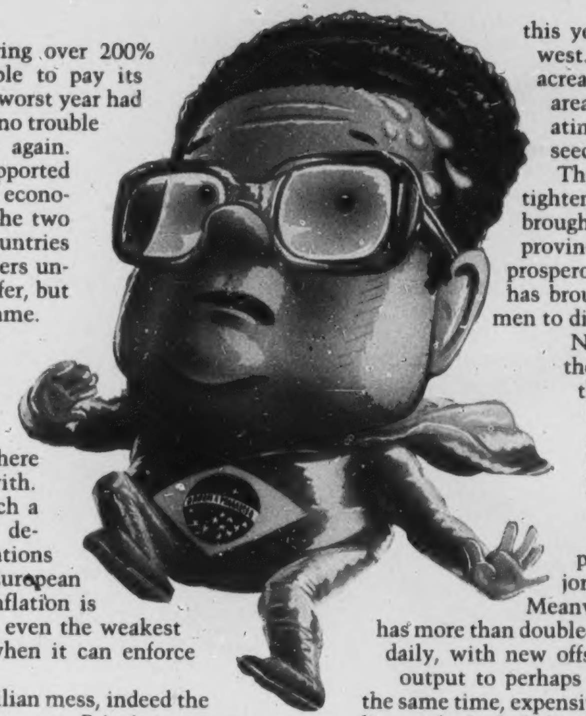
Meanwhile, Brazil's oil production has more than doubled since 1979, to 340,000 barrels daily, with new offshore finds promising to raise output to perhaps 420,000 barrels next year. At the same time, expensive investments to replace gasoline with alcohol, distilled from sugarcane juice, have been bearing fruit. Today 92% of the cars rolling off Brazilian assembly lines run on alcohol.

Why do such economic growth, rising standard of living and rising inflation so often go hand in hand? No mystery: The very credit creation that leads to inflation also encourages enterprise, at least in the early stages, by making money plentiful and cheap in real terms.

Alas, however, the process is self-limiting, and the limits are at hand. In the end those debts that financed the easy expansion cannot all be paid. In Germany in the 1920s, the Weimar government's credit collapsed. Unable to borrow, the German government had to run the printing presses flat out. In Brazil today a similar collapse of public credit may be imminent.

The precursor of this collapse is an almost tangible sense of fear. Says the editor of a leading Brazilian newspaper: "It will be like Germany in the 1920s. First, hyperinflation and social chaos, then a National Socialist regime to lead us out of the wilderness—into God knows what." A young secretary with an unemployed husband explains why the couple quit São Paulo for the remote countryside: "There's going to be an explosion. People can't live on what they earn." In an effort to make ends meet, both individuals and businesses are slipping into the underground economy at an accelerating pace. The result is further losses of government revenues and ability to borrow.

All this has begun to bleed resources away from Brazil's huge government-owned corporations, themselves an engine for inflation and for debt creation. These corporations, political entities as much as economic entities, flourished in Latin America in the postwar decades, nourished by foreign borrowing and printing-press money. These corporations created jobs and economic activity, but at the expense of ever-growing market restrictions and subsidies. The subsidies swelled the government deficit,



Antonio Delfim Netto
Brazil's Minister of Planning

while the market restrictions now saddle the Brazilian economy with high costs.

The huge Itaipu Dam on the Paraná River

What did Brazilians do with the borrowed money? Did they waste it? Not entirely. Much of it went to build productive things like power dams and steel mills. Too much, however, went for vast handouts.

State capitalism is not a purely Brazilian or Latin American problem; in recent decades it has spread all over the world to countries as different as South Korea, the U.K. and South Africa. Americans who advocate an "industrial policy" to help our troubled automobile or steel industries would do well to see where this has led in Brazil.

Most of Brazil's state corporations were formed after the military seized power in 1964 and have served as a final roosting place for retired generals and colonels, giving them great political power. Measured by net worth, the 24 largest companies in Brazil are government corporations. Each has its cluster of subsidiaries that proliferated rapidly during the 1970s. Some of them are world-class industrial corporations whose business was avidly sought by big foreign banks that lent them roughly $60 billion over the past decade.

While some are highly efficient at major undertakings like iron mining and dam building, these state companies, insulated from market forces, often do what they do at horrendous costs. Petrobras, the state oil corporation, indulges in politically motivated payroll padding, poor supervision and politically motivated contracting. Thus, in spite of Brazil's relatively low wage rates, Petrobras incurs offshore production costs higher than they would be anywhere else.

Today, therefore, most of these state companies are broke, owing billions of dollars in back debts to banks, contractors and suppliers. Also, these public enterprises served as fronts for central government borrowing abroad. Access to seemingly limitless foreign credit made them immune, for a while, to cash-flow problems generated by overstaffing, posh fringe benefits and grandiose investment ambitions.

The proper weapon for ending such waste would have been the imposition of efficiency measures on the state corporations. But that would have involved politically painful payroll-cutting. So Antonio Delfim Netto, Brazil's minister of planning, decided to gamble. In 1979 the owlish, fast-talking former economics professor launched a New Economic Policy to "fight inflation with growth."

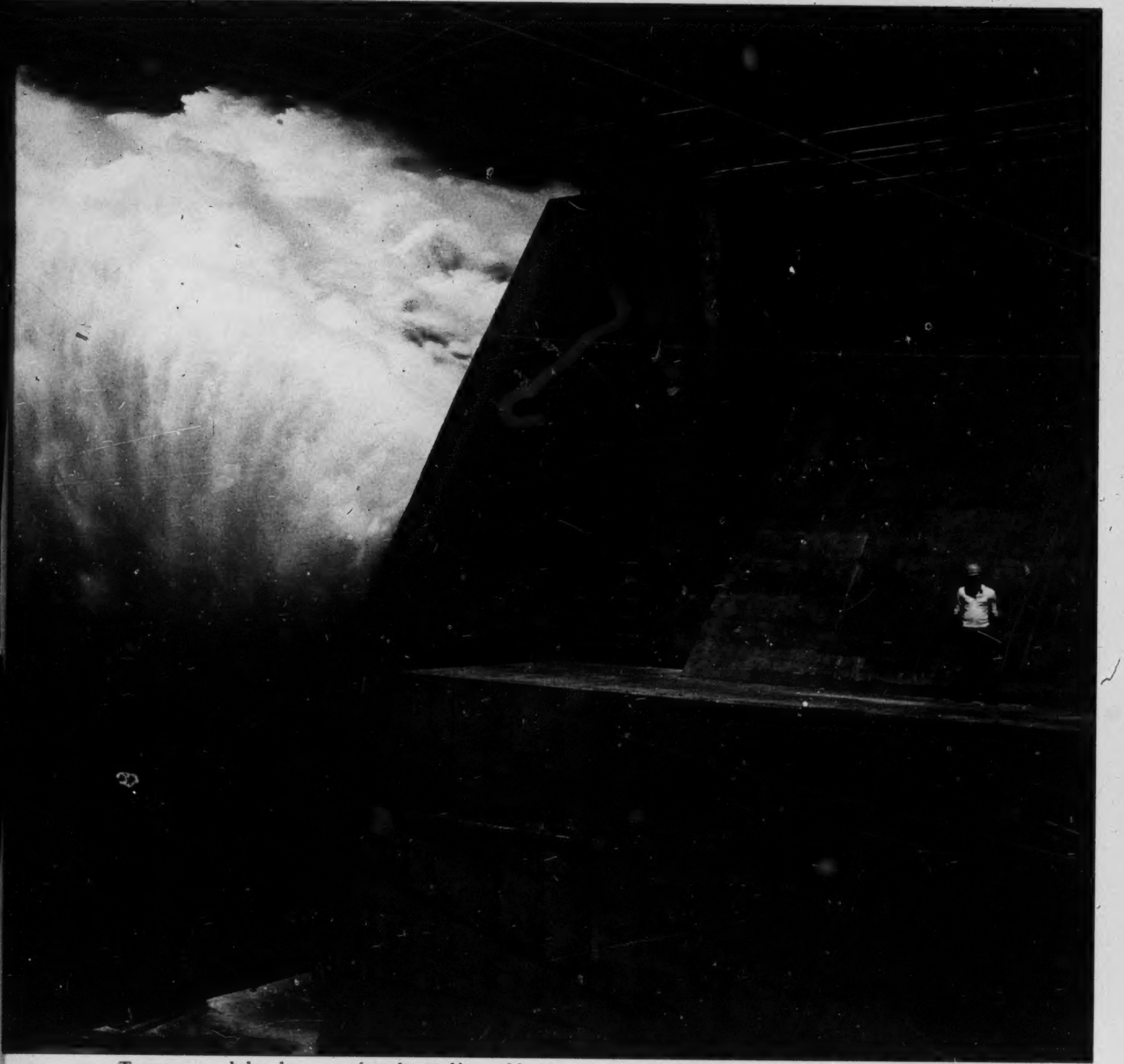
First, he announced that inflation could be beaten by a big harvest. So he hugely expanded rural credit, lending to farmers at interest rates barely one-fourth the inflation rate. What happened? Many of the farmers took the cheap money and put it out at high money market interest rates. According to a World Bank report, the acreage financed was from 30% to 100% greater than the area harvested for the main crops—soybeans, wheat, coffee and sugar.

Next, Delfim approved an "incomes policy" that pegged wage increases above inflation, already approaching 100%. Thus, instead of slowing inflation, indexing speeded it up. Delfim had turned Brazil's famous indexing system into a monster that nobody could control.

Private business could deal to a degree with rising labor costs by laying people off. But the state corporations—absorbing nearly one-third of the national product—couldn't lay people off. Doing so would lead to great unemployment and economic discontent. So the state companies continued to honor workers' "acquired rights," such as 16 monthly salaries for 11 months' work, retirement as early as age 50, plus free or subsidized housing, health care, supermarkets and personal loans.

"Just try to fire people or stop paying them 16 monthly salaries a year," says the president of one of the big state electric utilities. "You can't do it. We have strong unions in this company. They go to court to defend their acquired rights and they win. Overtime pay also becomes an acquired right, even if nobody works overtime."

Unable to levy enough taxes to pay the losses of this and other government spending, the government resorted to borrowing more at home and abroad. Government domestic borrowing was squeezing credit so severely that public and private companies couldn't meet their payrolls. It was a genuine crowding out of private credit.



To get around the shortage of credit, Delfim told private companies to borrow abroad, in dollars. This drove them into the friendly arms of foreign bankers, whose own coffers were swollen with Arab petrodollars. To make things easier, Delfim prefixed the exchange rate a year ahead of time at less than half the rate of inflation. A few years ago he described to FORBES the way things worked:

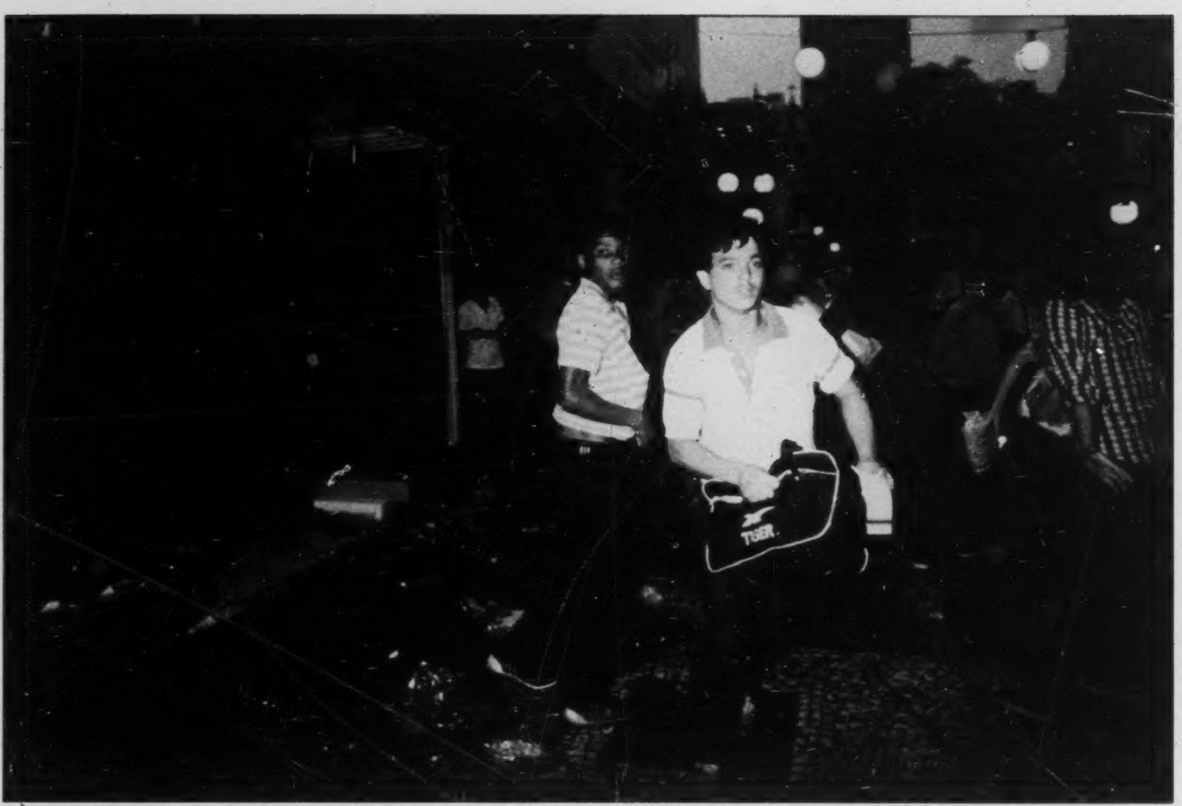
"Until now, what has been done is simply to get a foreign loan, change the dollars into cruzeiros and use this loan domestically to create money that could be spent."

Of course, he promised to change all that, and did. By steeply devaluing the cruzeiro he stopped the game of borrowing abroad by private business, but he also made it almost impossible for private businessmen to service their foreign loans.

So Brazil is hooked on credit but cannot carry its expensive habit any further. Put it this way: Not without a certain cynicism, knowing in the long run they could not service so much debt, the Brazilians succeeded in getting foreign banks to help finance their welfare state. Now, bereft of this questionable largess, with no net new foreign loans coming in, Brazil resorts even more desperately to the printing press. Inflation spins crazily out of control.

Again, the world has been here before, and the precedent is frightening. It was described in 1923 by Lord d'Abernon, the British ambassador to Berlin during the German hyperinflation: "In the whole course of history, no dog has run after its own tail with the speed of the Reichsbank. The discredit they throw on their own notes increases even faster than the volume of the notes in circulation. The effect is greater than the cause; the tail goes faster than the dog." Just substitute Brazil for Germany, and you have it.

To stop this long-ago tail-chasing, measures were developed by the League of Nations that closely resemble what



Recent street scene in São Paulo

A young secretary with an unemployed husband explains why the couple quit São Paulo for the remote countryside: "There's going to be an explosion. People can't live on what they earn."

the International Monetary Fund is trying to do today; that is, monitoring drastic internal measures in order to curb the government deficit. Thus neither the disease nor the medicine is new.

Under prodding from the League of Nations, independent central banks were formed in most of the inflation-ridden countries, and the new central banks abruptly stopped printing money and lending to the government. Unable to borrow, the government had to fire. In 1922, after the value of its currency declined by about 90% in eight months, Austria undertook to fire 100,000 government employees. In 1923-24 Germany fired 230,000 government employees.

Note this: It was drastic domestic measures that stopped inflation in the 1920s, not the kind of outside help Brazil is seeking. At this point Brazil is not yet desperate enough to sacrifice state capitalism, and part of the huge bureaucracy it has spawned, to put its finances in order. So the money chaos gets worse.

For example, on Monday, Oct. 17, Brazil's Central Bank auctioned 1 trillion cruzeiros (U.S.: $1.25 billion) in dollar-indexed treasury bonds. The issue was equal to one-fourth of Brazil's whole high-power money supply. It was eagerly grabbed by brokerage houses and small and medium-size banks that planned to retail them to their customers. The new bills were attractive to investors: interest, pegged to inflation and devaluation, was 250% to 300% yearly. And the government turns around and lends to the farmers at just 100% yearly. Moreover, to support overextended securities dealers, the central bank had to subsidize loans to them so they could hold the unsold treasury bills in their portfolios. Is there any wonder that Brazil is on the verge of total monetary collapse?

But, again, Americans would be wise to avoid complacency. The same thing has happened here. Farmers borrowing at subsidized rates and putting the proceeds into money market funds; middle-class people getting government-subsidized mortgages; autoworkers helped to big wage boosts by quotas on competitive Japanese imports. Americans need only think back to the height of their own inflationary frenzy in 1980 and 1981, when collectibles, condominiums and commodities were considered prime investments. Says a prominent Brazilian economist: "Today the private sector has stopped investing in production in order to invest in financial speculation."

Or, listen to this and shudder: "My regular customers have disappeared, but business still is pretty good," says a gentleman's tailor in a middle-class São Paulo neighborhood. "The middle class can't afford made-to-order suits anymore, but men who work in banks and brokerage houses now are ordering five or six at a time."

Among those who have profited most in this inflationary environment in Brazil are businessmen whose companies have declared *concordata (see box, p. 180)*. This is a Chapter 11-type proceeding to avoid bankruptcy, which suspends interest payments for two years while freezing cruzeiro debt at nominal levels and converting dollar debt into cruzeiros. *Concordata* has proved both profitable and popular. Some of Brazil's leading companies have joined the great surge of court petitions in 1983. Inflation, quite obviously, does nothing to improve business morality.

Fortunately, the U.S. seems to have turned off the path that leads to hyperinflation. But Americans will recognize the symptoms as described in the classic study of the great

Survival over conscience

What's it like doing business in an economy where inflation is accelerating almost out of control and where the government is trying desperately to apply the brakes? What do you do? You survive as best you can. Listen to the plaints of a well-known São Paulo business executive:

"My company got into trouble because commodity prices froze on our products in 1980-81, while inflation doubled our costs each year. I tried to stay in business by borrowing money until prices would recover. I spent two-thirds of my time trying to get more loans. By early 1982 I realized I never would be able to pay my debts and a *concordata* would be necessary."

Concordata, as our story explains, is a relatively gentle form of Chapter 11 that enables Brazilian companies to evade debt burdens while staying in business.

The businessman sighs: "We have an old family business, and taking a decision like this involved serious problems of conscience."

In the end, survival won out over conscience. The businessman continues: "But once I decided, I borrowed as much as I could, in addition to what I already owed, to buy all the new machinery I needed to operate my business efficiently during the *concordata*. When I didn't need any more credit and was in a strong bargaining position, I called in my creditors. Banks held nine-tenths of my debt and suppliers the rest, so I paid off my suppliers so our business could continue running normally.

"Ten months ago we were broke, but today I have $1 million in Brazilian treasury bills, earning fabulous profits and generating 30% of our cash flow without having to lift a finger. Meanwhile, the price of my company's stock has tripled, as has the price of other big companies' that declared *concordata*."

So attractive is *concordata* that many Brazilians have decided it is a sensible way to deal with the nation's foreign debt. They may be right. Since we no longer have debtors' prisons and warships are no longer considered a valid instrument for collecting international debts, renegotiation and scaling down seem the only sensible way of dealing with what Brazil owes abroad. The problem is not to make it too easy or attractive, and to provide enough guarantees to prudent lenders that credit can flow again, more rationally.—N.G.

German inflation. It was written by the Italian member of the War Reparations Commission in Berlin, Costantino Bresciani-Turroni. A half-century ago he wrote: "The fluctuations of the mark caused a continual instability in the conditions of German production, an alternation of periods of feverish activity and periods of restraint and business crises. To every improvement [strengthening] of the mark there corresponded an increase of unemployment." Then, as now, fighting inflation was a painful process. Inflation leads to instability, but deflation leads to painful interruptions in the general prosperity. No government of modern times, no social system, has dealt successfully with the problem.

In this context, the world is asking a lot in expecting Brazil to stop inflation and honor her debts.

There's been a great deal of scurrying around recently to resolve the Brazilian situation with a minimum of pain. Just before the IMF-World Bank meetings in Washington in late September, Brazil's new central bank president, Affonso Celso Pastore, began roaming the earth, talking with bankers in Washington, New York, Toronto, Honolulu, Tokyo, Bahrain, London and Zurich. He is trying to hold together agreement "in principle" on a new $11 billion rescue package, including a $6.5 billion jumbo bank loan for 1983-84.

Make no mistake, though: The jumbo plan won't get the banks out; it will get them in deeper. In one grand gesture it would expand the banks' exposure to Brazil by 11%, which would swell Brazil's foreign debt past the $100 billion mark.

"Can we put together the biggest jumbo in history for one of the world's financially weakest economies?" asks an executive of a big New York bank, one of Brazil's leading creditors. Maybe. Maybe not.

To the extent that Brazil is trying to cooperate with the International Monetary Fund, it has subjected its society to severe stresses already. One of the main talking points of Brazilian officials with bankers and the IMF is that their tight monetary policies held growth of the primary money supply to "only" 91% over the past 12 months, while inflation was over 200%. Part of this contraction of available cash came less from tight monetary policy than the fact that smart people were repudiating the use of cruzeiros to store their wealth, moving instead into dollars and dollar-indexed government securities. The poorest people, those who use cash most, have been bearing the brunt of the monetary contraction.

For example, over the past year food prices rose 334%, with some staples—such as beans and potatoes—multiplying fourfold. Income and cash available went up nowhere near that fast. As well-tailored Brazilian bankers and officials discussed the Brazilian debt in Washington and New York, some Brazilians were going to great extremes to relieve the cash squeeze: Mobs were sacking supermarkets in slums on the outskirts of Rio de Janeiro and São Paulo and in small towns in the drought-wracked northeast.

In the U.S. "austerity" involves a few union givebacks, the elimination of some cushy government jobs and, maybe, difficulties for young couples in moving to larger dwelling quarters. In Brazil austerity means hunger. Not surprisingly, Brazilians are openly rebellious at the idea of indefinitely committing up to 5% of their national income, representing half their export earnings, to paying interest on the enormous debt already accumulated.

Who is to blame that U.S., European and Japanese banks allowed their loans to the Third World and Eastern Europe to expand to $400 billion, over $200 billion of that to three Latin American countries, Brazil, Mexico and Argentina? Easy to blame the bankers. Why did they push loans on countries, knowing in their heart of hearts the loans could never be serviced, let alone repaid?

Or you can blame the borrowers. The foreign money was cheap money, usually lent at rates below inflation, and it was capital that did not have to be squeezed out of their own threadbare economies. So they took all that was proffered and asked for more.

But there is another side to this: Over the past decade the international credit expansion sustained world growth and development in the teeth of a tenfold increase in oil prices. It was the bankers who "recycled" the vast petrodollar surpluses and averted a crash in 1974 and again in 1979.

Changing dollars on the street in São Joao del Rei

Smart people are repudiating the use of cruzeiros to store their wealth, moving instead into dollars. The poorest people, those who use cash most, have been bearing the brunt of the monetary contraction.

It was a risky business, but everyone had his favorite rationalization. The big borrowers believed that banks could not afford to stop lending to them because any suspension of credit would lead to a default, which would in turn lead to financial panic in the main lending countries. With remarkable symmetry, the banks felt that they could lend freely because they, too, were too big to be allowed to fail. Besides, the bulk of their deposits from Americans are federally guaranteed. Those guarantees calmed depositors as illusion fed on illusion. It is always that way in booms.

However, blame is not the issue now. Between 1979 and 1982 Brazil borrowed an additional $24 billion from foreign banks but paid out interest of nearly $28 billion. That means Brazil was bleeding cash even though its international debt was rising.

Yet the charade goes on, a charade of capitalizing interest, rolling over loan installments and increasing credits until the developing nations' debt reaches $1 trillion or more and people can no longer pretend. In fact, people cannot pretend much longer. For one thing, Brazil cannot and will not really carry out the terms of the International Monetary Fund rescue plan.

Three times this year Brazil has promised to bring the inflation rate down, but it has gone up instead, and it is still going up. Three times Brazil's Congress rejected wage control legislation and passed a watered-down version only in November. How effective these controls will be remains to be seen.

What now? If the banks can put together the new loans, the main beneficiaries would be the nine big U.S. money center banks, which as a group have lent the equivalent of half their capital to Brazil.

If the loans are made and interest payments resumed, the biggest banks *(see table, p. 186)* would be able to breathe a little; they would be relieved of the obligation, under U.S. banking regulations, of subtracting Brazilian interest more than 90 days in arrears from current profits and, later, writing off bad loans as capital losses. Also, the big banks would earn immediate profits from front-end fees and commissions of $65 million to $100 million for their trouble in arranging the new jumbo.

Who is to bail out the big banks? The little banks. The U.S. regionals currently have much less loan exposure to Brazil and have resisted being pushed into the big banks' crowded lifeboat. Yet the pressure is on them to produce much of the new money Brazil needs. The regionals reluctantly are agreeing to join in the $6.5 billion Brazilian jumbo, essentially for political reasons, though many have warned the big banks that this will be the last time.

German and Japanese banks also are joining the rescue for political reasons, even though the banks have been writing off much more of their bad foreign loans more vigorously than their U.S. counterparts.

But even if all the reluctant contributors finally are lined up in a united front to save Brazil and themselves from immediate financial embarrassment, how long can this process continue? Brazil's annual interest bill already amounts to half its export earnings. How long could a company stay in business if half its revenues had to be used for interest payments? Not long.

Yet another voice from the 1920s: In his *Tract on Monetary Reform* (1923), John Maynard Keynes observed: "The active and working elements in no community, ancient or modern, will consent to hand over to the *rentier* or bondholding class more than a certain proportion of the fruits of their work." When debt burdens become intolerable, he added, the government resorts to repudiation or devaluation, which wiped out two-thirds of the French and all the German public debt in the 1920s.

Eventual default, therefore, is not a probability but an inevitability. Even if Brazil were a totalitarian state, it probably could not force enough austerity on its people to pay the international debts. But default can be managed. Look at the way the International Harvester and Chrysler situations were handled in the U.S. The important thing is that both companies were kept alive and eventually got enough fresh credit to stay in business. The losses, of course, are much greater in lending to foreign governments. So, many of the banks would have to look to their own central banks and their governments to bail them out—at a penalty, of course—on the grounds that while the banks did transgress, their transgressions got the world

Bank	Loans to Brazil ($billion)	Total loans ($billion)	Brazil as % of total loans	Loan loss reserves ($million)	Stockholders' equity ($billion)	Brazil loans as % of stockholders' equity	Bank
Citibank	$4.4	$91.1	4.8%	$728	$5.5	80%	Citibank
Chase Manhattan	2.4	55.6	4.3	552	3.0	80	Chase Manhattan
Bank of America	2.3	75.9	3.0	400	5.2	44	Bank of America
Manufacturers Hanover	2.0	40.9	4.7	393	2.6	77	Manufacturers Hanover
Morgan Guaranty	1.7	43.8	3.9	446	3.2	53	**Morgan Guaranty**

Loan loss reserves and stockholders' equity as of 9/30/83; all other figures as of 12/31/82. *Sources: Bank data; Keefe, Bruyette & Woods; Institute for International Economics.*

In deep

The weight of loans to Brazil on the balance sheets of these big U.S. banks—the largest private lenders to Brazil—is now distressingly close to the weight of their capital. Would their capital be wiped out if, as seems probable, Brazil stops paying? Probably not, since accountants and federal regulators would step in to control the bleeding so the big banks would survive. But will the banks be more careful next time?

through the petrocrisis and helped expand world trade.

A start has been made. Loan loss requirements are not yet set for new and rescheduled loans to countries in debt trouble. U.S. regulators also apparently are relaxing the legal lending limit—15% of capital to any one borrower—to accommodate banks in granting new loans to countries that cannot otherwise service their debts. A year ago federal authorities began requiring banks to report and deduct from profits all arrears in interest payments of more than 90 days. This grace period now is being stretched to six months. Also, all peso payments in escrow to the central banks of Mexico and Argentina, which don't have the dollars to pass these loan payments on to the banks, have been treated as current income by U.S. banks, with the blessing of federal regulators.

These, of course, are only delaying actions.

There are plenty of proposed long-term solutions. Most suggest conversion of loans into long-term, low-interest debt administered by the World Bank, the IMF or some new international agency. An indirect bailout of this kind is seen as more elegant, and politically less controversial, than if the central banks were to buy the bad paper and pocket the loss on behalf of taxpayers.

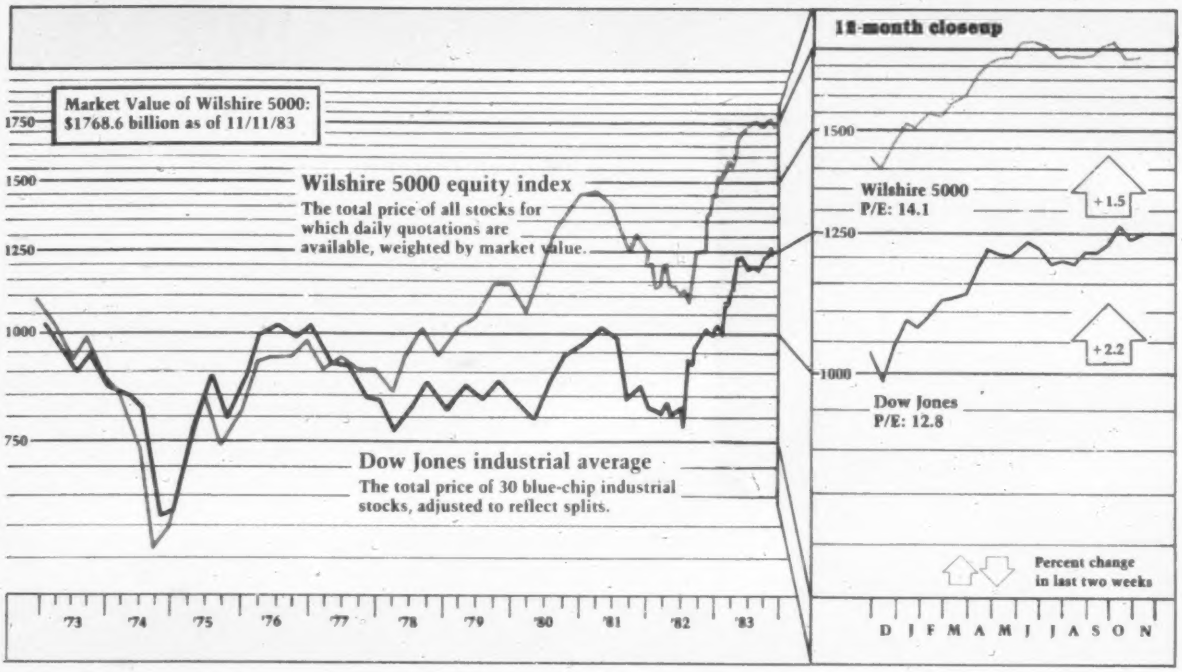
One such proposal has come from MIT Professor Rudiger Dornbusch, which would tie a scaling down of foreign debt to a scaling down of the explosive government domestic debt. It would accompany both with a radical devaluation of the cruzeiro to induce Brazilian companies to export more. Dornbusch would convert Brazil's foreign debt into long-term, low-interest government bonds. The banks could hold or sell them. If sold, the bonds would fetch a price well below 100 cents on the dollar. This would involve the banks in major losses but would bolster their liquidity. Who would buy the bonds, even at a discount? Dornbusch cites New York City's experience. When the city was close to default, there was still a market for its outstanding bonds, albeit at a big discount.

Market forces already have begun to move in this direction with the establishment in London of an informal secondary market for loan paper. In this market, Brazilian loans sell at 60 cents on the dollar. The point is: The system almost certainly can absorb the shock. Loans to developing nations and Eastern Europe by the international banking community total $400 billion, with $135 billion of this from U.S. banks. But against this, U.S. banks have total assets of $2 trillion. They have annual profits of about $15 billion. If half their $80 billion in Latin American loans had to be written off over, say, ten years, with corresponding tax credits, bank profits would be severely reduced. But the banks would, as a group, remain solvent. Judging by the prices at which some leading bank stocks are currently selling, that possibility has already been partly discounted by the market.

The real issue is not bank profits but trade. The debts cannot all be collected, but they must be dealt with in a way that keeps credit flowing to finance trade and to finance genuinely productive enterprise. Terrifyingly large as the potential loan losses are, the money is gone, and the important thing now is to prevent the financial damage from savaging the real world of trade, employment and investment.

They hired the money, didn't they? Yes, but they can't pay the rent on it and never will be able to. Admission of that fact is the starting point for any solution to the crisis. ■

The Forbes/Wilshire 5000 Review



Last-minute reprieve. Investors had a nervous month, but a healthy, broad-based uptick during the last week of the period helped to calm some jitters. The market, as measured by the Wilshire index, is behind 2.7% for the four-week stretch. Still, there is a 1.5% gain for the last two weeks. All other major indicators also advanced over the last ten trading days. Amex issues were at the forefront of the upward move, with a 3% rise. Big Board stocks, with a 1.6% gain, barely outperformed the overall market, while the Dow industrials led the way for the NYSE with a 2.2% advance.

The score for the last four weeks shows the intensity of the flight into defensive stocks. For example, high-volatility and high-growth shares declined 5.8% and 6.3%, respectively, while their low-volatility and low-growth counterparts posted drops of only around 1%. Nevertheless, second-tier securities still hold a slim lead in 52-week performance, despite the drubbing they took through the fall season. Over the one-year period, the Dow outperformed the NASDAQ by a whisker, 20.2% vs. 19.1%. The NYSE lagged with an 18.8% advance. That leaves the Amex ahead of the pack with a 28.7% gain.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–2.7	–2.2	–1.1	–2.2	–4.1	–4.5
in last 52 weeks	19.6	18.7	20.2	18.8	28.7	19.1

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–2.0	–4.9	–5.8	–1.2	–6.3	–4.0	–1.0	–4.2	–6.3	–1.1	–1.9	–5.5
in last 52 weeks	20.4	68.5	51.8	31.4	34.1	65.8	28.3	61.9	60.0	29.1	30.5	59.6

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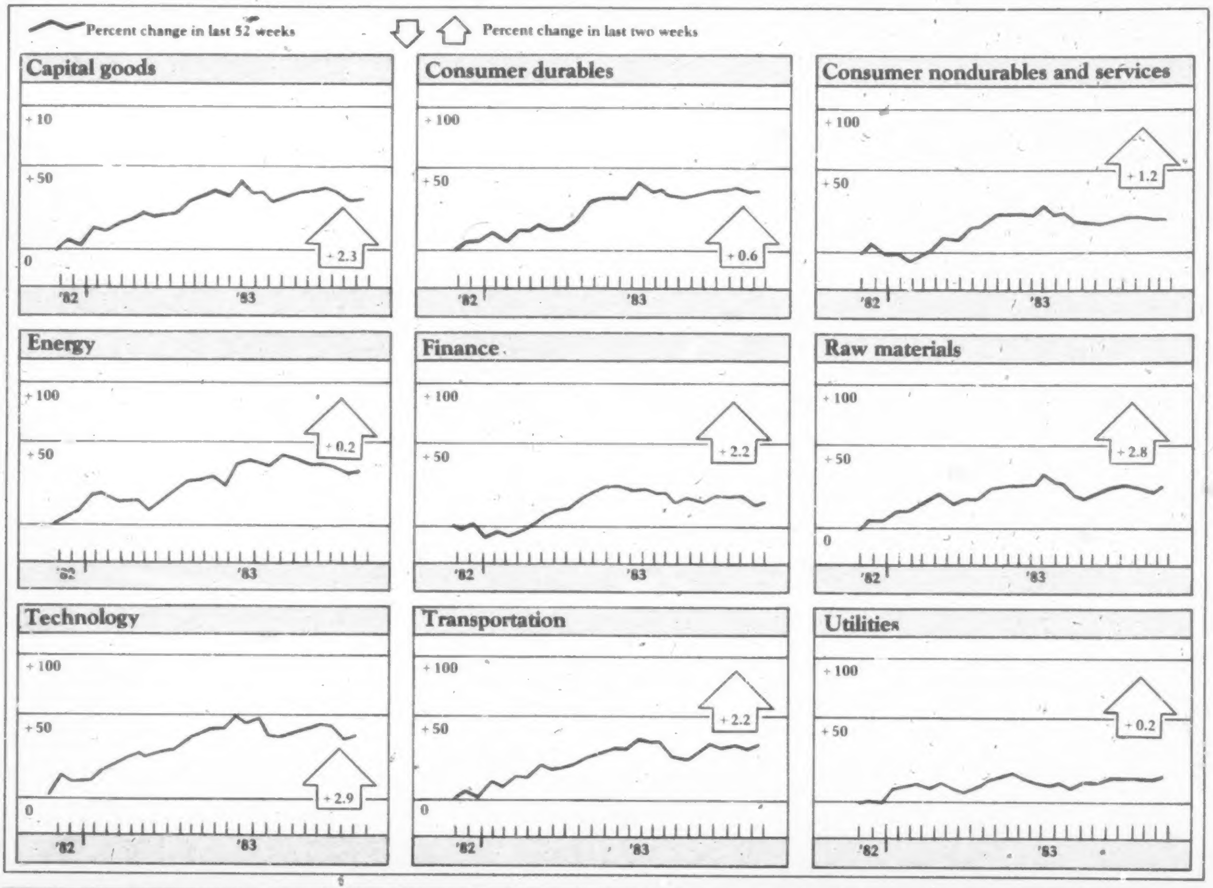
[1] Based on sales.
[2] A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3] A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 11/11/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

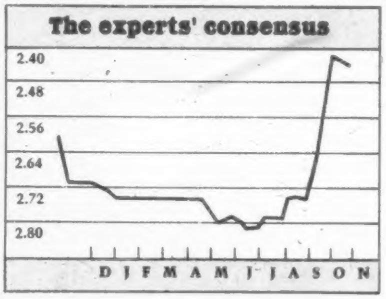
In the money. All nine Wilshire sectors moved into positive territory during the last two weeks. Technology shares, which showed the biggest loss in our previous look at these data, registered the sharpest gain, with a 2.9% rise. Closely behind was raw materials, up 2.8%. Capital goods, transportation and finance shares all achieved gains in excess of 2%. Energy, consumer durables and utilities lagged the other groups.

Despite their recent strength, utilities show the poorest 52-week performance with only an 8.4% gain. Finance and consumer nondurables also lag the market while technology shares take first place, with a 30.3% advance.



What The Analysts Think

Out of the bullpen? Despite Wall Street's attempts to start another leg of the rally, the analysts became a little less optimistic about the market in general. Consensus opinions of security analysts, meanwhile, improved on the four top-ranked sectors and deteriorated on the last four sectors.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	1.78	1	1
2	Consumer durables	2.26	2	2
3	Raw materials	2.28	3	3
4	Transportation	2.36	4	4
5	Technology	2.42	5	5
6	Capital goods	2.55	7	7
7	Consumer nondurables	2.60	6	6
8	Energy	2.78	8	8
9	Finance	2.85	9	9

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 11/11/83. Prepared by Wilshire Associates, Santa Monica, Calif.

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Forbes: Capitalist Tool

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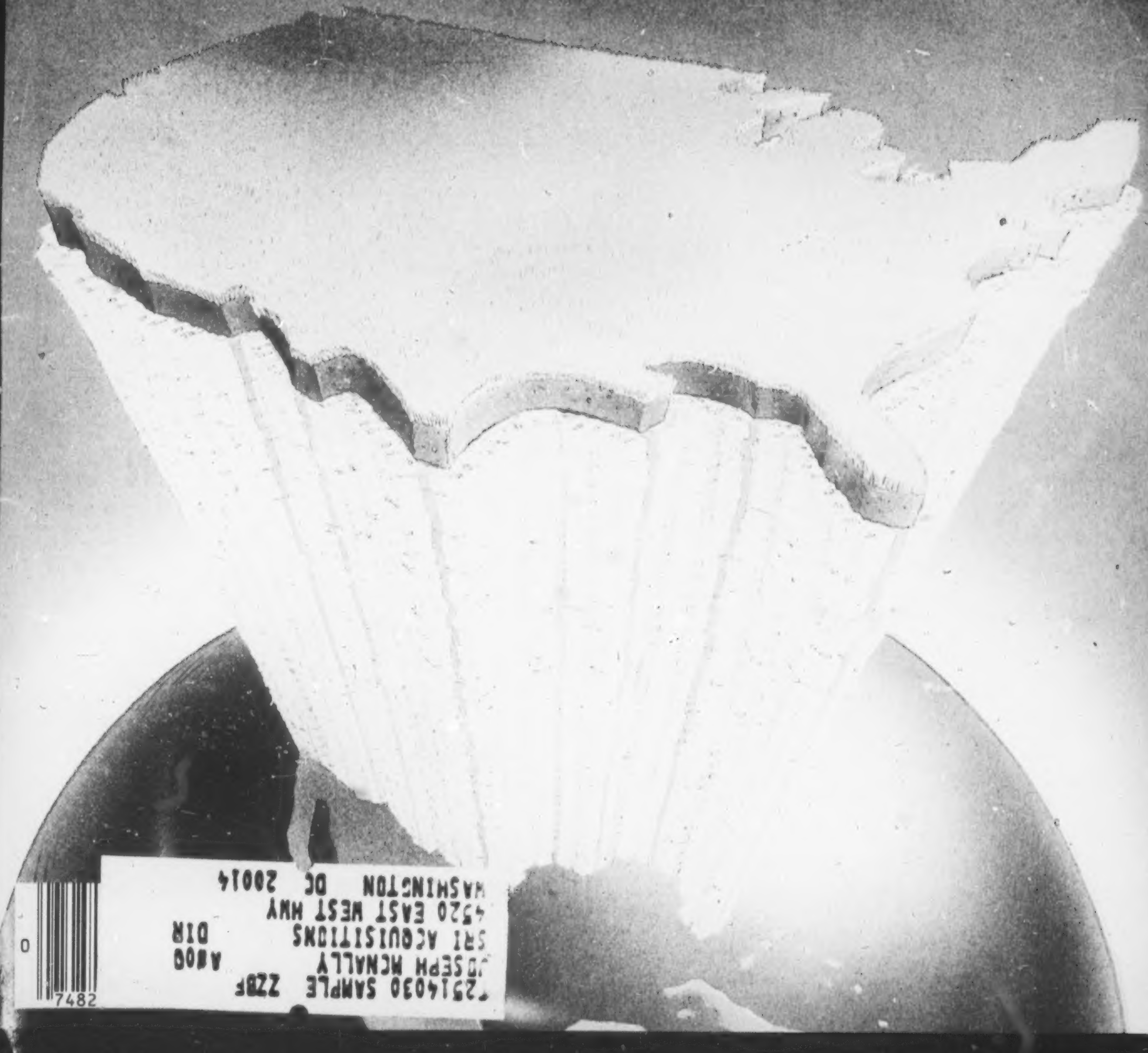
Forbes

REAL ESTATE SYNDICATION

WHEN WILL THE BUBBLE BURST?



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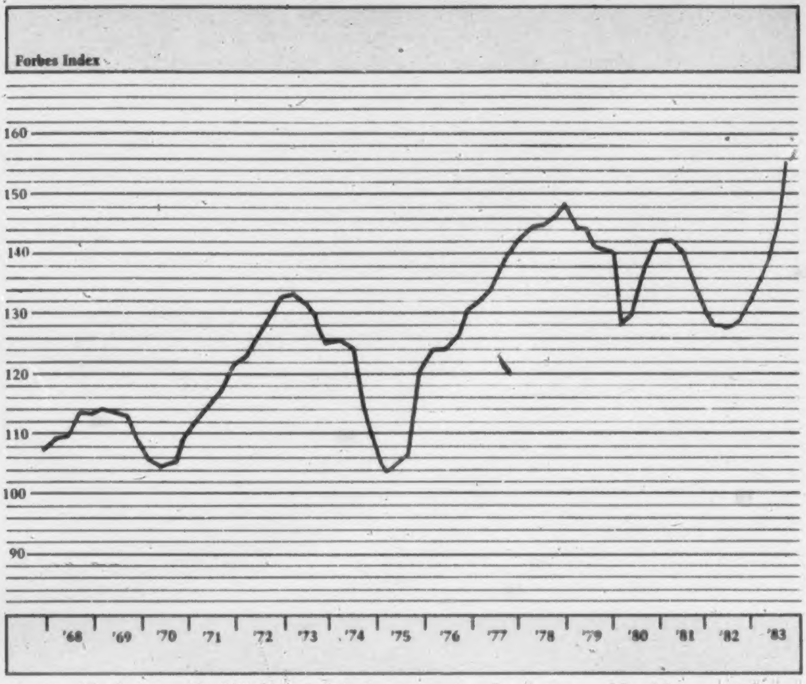
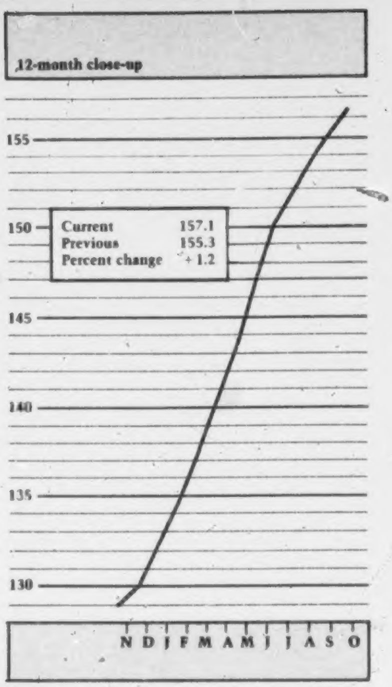
The Forbes Index





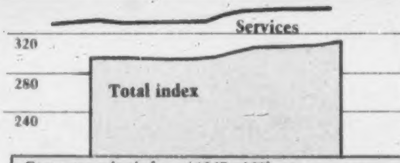
Controlled growth. With a 1.2% increase in the latest reporting period, the Forbes Index indicates that the economy is moving ahead but not overheating. The biggest month-to-month gains came in personal income and retail sales, up 1.2% and 1.1%, respectively. Will the holiday season at the checkout counter be as strong as some experts are expecting? While retail sales were 10.2% higher than a year ago, personal income is up only 8.9%. For a blockbuster Christmas, that means consumers must either dip into savings or take on more debt.

While a strong recovery in capital goods has yet to materialize, industrial production rose an encouraging 0.8% from the previous month. An advance in the consumer price index of less than 0.3%, meanwhile, translates into a 3.2% annualized rate of inflation. But there is bad news, too: a 2.6% gain in new unemployment claims.

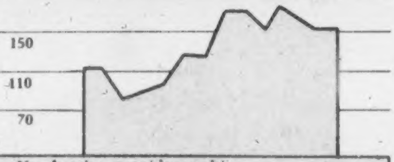
The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

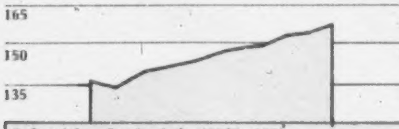
To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series is presented at right.



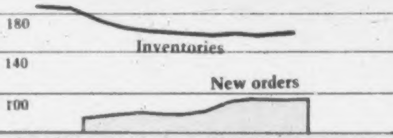
Consumer price indexes (1967 = 100)
all urban consumers, unadjusted (Dept. of Labor)



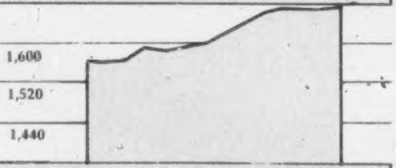
New housing starts (thousands)
privately owned, unadjusted (Dept. of Commerce)



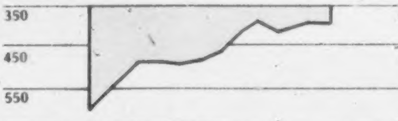
Industrial production index (1967 = 100)
Seasonally adjusted (Federal Reserve)



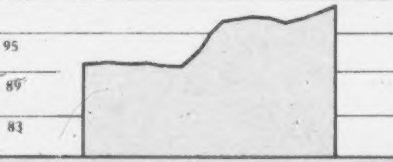
Manufacturers new orders and inventories
($billions) seasonally (Dept. of Commerce)



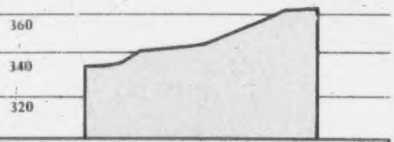
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims (thousands)
seasonally adjusted (Dept. of Labor)



Retail store sales ($billions)
seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions)
total, seasonally adjusted (Federal Reserve)

Forbes

Forget the ground floor. In leveraged buyouts everyone wants to get in on the mezzanine. Lots of action there.

Where the smart money wants to go

By Priscilla S. Meyer and Robert McGough

EVER WONDER WHY there are so many leveraged buyouts these days? Sure, a lot of businesses are better run independently by owner-managers than by giant public corporations. And there's the fact—well expressed by FORBES columnist Tom Murphy *(Oct. 24)*—that a lot of the LBOs are just being fattened up for a run at the new issues market. But follow the money—and there's plenty of money in this business—and you discover what Wall Street cheerfully calls "mezzanine financing."

Selling a piece of the pie

Since 1978 these 16 corporate divisions have been acquired through leveraged buyouts.

Original owner	Division sold	Buyout originator	Price (millions)
AMF	Harley-Davidson	management	$ 75
Allied	Converse	management	100
Anchor Hocking	Anchor Glass Container	Wesray	65
Beatrice Foods	All-American Bottling	Forstmann Little	105
Bendix	American Forest Products	Kohlberg, Kravis	435
Continental Group	Teepak	Hillside Capital	105
Dart & Kraft	Thatcher Glass	Dominick Intl	140
Diamond Intl	Heekin Can	Wesray	80
FMC	PT Components	Kohlberg, Kravis	125
Foremost-McKesson	Foremost Dairies	management	65
Gulf & Western	New Jersey Zinc	management	50
Gulf & Western	Consolidated Cigar	management	120
National Steel	Weirton Steel	employees and Lazard Frères	385
Owens-Illinois	Lily-Tulip	Kohlberg, Kravis	150
RCA	Gibson Greetings	Wesray	80
Revlon	Alford Industries	Bear, Stearns	75

The mezzanine may not be the ground floor, but in some senses it's an even better place to get in on the leveraged buyout game. To understand what the mezzanine is, it is necessary to understand how these deals are structured. On the ground floor, of course, is the manager of the company. He gets a nice chunk of the equity, paid for mostly with the promise of hard work. On the second floor are the bankers and insurance companies that lend the money to pay for the leveraged buyout.

There's something for the people on every level. The chap on the ground floor gets a chance to be his own boss and to get rich. The second-floor lenders, meanwhile, charge interest rates that are up to 3 percentage points over prime. They also benefit from "point" equivalents, upfront charges, prepayment penalties and equity options. The security, what's more, isn't deep gas or Third World dreams, but plain old corporate assets—stuff a creditor can actually touch.

Most LBOs, however, need something else to make them go. That's where the mezzanine comes in. Corporate managers, the guys on the ground floor, typically make token capital contributions. They kick in perhaps $2 million in a $180 million deal, a mere 1%. But the banks and insurance companies want more than $2 million in protection; they want $30 million, say. So, more equity is needed—the so-called mezzanine level. It is usually senior to the tiny slice of management equity and takes the form either of preferred stock or subordinated debt.

Mezzanine lenders are nominally investment bankers. But the real money comes from wealthy investors, venture capital pools or pension funds. They usually wind up with between 20% and 70% of total equity—which they hope to be able to sell off later to the public.

As long as speculators have an appetite for new issues—even new issues of old businesses—the profits on the mezzanine can be fat indeed. William Simon's $66 million killing in Gibson Greetings shows the potential in LBOs. "It's got to the point," says an investment banker, "that if a guy walks in here with $2 million wanting some ground-level equity in an LBO, I tell him to go away. I don't need him. There's plenty of money walking around."

What's appealing about LBOs is that they don't require fancy products or brilliant growth prospects. "We're after dull and ugly companies," explains Gilbert Butler, a former Morgan Guaranty vice president who now heads Butler Capital Corp. His pride and joy is Hygiene Industries, the nation's largest shower-curtain maker, which Butler Capital helped buy from Nabisco in 1982.

This was a $28.5 million deal, arranged by First Boston. Butler provided $7 million in mezzanine finance, in return for preferred stock and subordinated debt. Along with that comes roughly 30% of the company's equity. But Butler gets even more. He earns a juicy 17% annually on his money and has three attractive options: He can sell his Hygiene shares to the public, to management or to an outside investor.

No wonder everyone now wants to do mezzanine financing. A client of Kohlberg, Kravis, Roberts & Co., a New York firm, for example, claims to have earned a 700% return on the buyout and subsequent public offering of Norris Industries. Kohlberg, Kravis now is raising $1 billion to do even more LBO deals, and much of that money, no doubt, will be put into mezzanine financing. Merrill Lynch, meanwhile, is in the mezzanine business, as is Citicorp; Morgan Stanley is about to enter. Narragansett Capital, a $113 million closed-end fund that trades over-the-counter, also provides capital for leveraged buyouts. Over the past two years, share prices have gone up 140%.

It's the old story. The profit potential of leveraged buyouts is so good that the dollars are starting to chase the deals. There are already telltale signs of trouble. Houdaille Industries, for example, the Fort Lauderdale-based machinery company that was bought out in 1979 in a transaction handled by Kohlberg, Kravis, is reportedly having difficulty earning enough money to justify a return to the public market. Then there is Brentano's. In 1981 managers bought this bookstore chain from Macmillan. Within a year Brentano's filed for protection from its creditors.

So the leveraged buyout phenomenon looks like it will go to extremes. It always happens that way in markets. So far, a lot of money has been made in LBOs. In the end a lot of money will be lost. ■

Selling the whole pie

Since 1978 these 20 corporations have been acquired through leveraged buyouts.

Company/*business*	**Buyout originator**	**Price (millions)**
Albany Intl/*papermaking, fabrics*	Morgan Stanley	$270
Beverage Management/*soft drinks*	Forstmann Little	100
Cannon Mills/*household textiles*	Pacific Holding	405
Coca-Cola Bottling of Miami/*soft drinks*	investors	155
Coca-Cola Bottling of NY/*soft drinks*	Gibbons, Green	220
Congoleum/*floor coverings*	First Boston	460
Dan River/*textiles*	Kelso & Co	150
Dentsply Intl/*dental, optical equip*	Kelso & Co	115
Dillingham/*maritime, constr, energy*	Kohlberg, Kravis	350
Empire/*liquefied petroleum gas distr*	Allen & Co	115
Fred Meyer/*food retailer, distributor*	Kohlberg, Kravis	425
Marley/*cooling towers*	Kohlberg, Kravis	330
NI Inds/*building products*	Kohlberg, Kravis	420
Purex Inds/*household cleaning prods*	Gibbons, Green	390
Questor/*infant feeding, seating equip*	DW Lufkin	135
Raymond Intl/*engineering, constr*	Kelso & Co	155
Reeves Brothers/*textile mfr*	Bankers Trust	165
Reliance Group Holdings/*fin svcs*	Saul Steinberg	535
Signode/*strapping sys fastener*	Merrill Lynch	430
Williamhouse-Regency/*stationery*	Carl Marks & Co	115

In London's financial markets, the panic is beginning. Fixed brokerage commissions are going and . . .

The colonials are coming

By Marcia Berss

DÉJÀ VU: The stock exchange abolishes the fixed commission. Brokers wail that the increased competition will force them to merge or fold. Research analysts financed by fixed commissions worry about what will support their activities. Everyone says that the firms with the deepest pockets will dominate the marketplace.

It's not 1975 in New York but 1983 in London, and the British brokers are sweating. The deepest pockets belong to the Yanks, and they just might overrun the London Stock Exchange and turn the corner of Throgmorton

Nothing will open doors for you like an M.B.A. degree from a top school. Earning one is the quickest route to the fast track. Still, is it worth it?

What's an M.B.A. really worth?

By Maria Fisher

SHORT OF A Jr. after a name that is also on the headquarters building, they still say, no letters in the corporate world will do more for you than M.B.A. when it comes to starting salaries. A typical 1973 graduate of Harvard Business School started at $17,000, for example. Five years ago the figure had risen to $24,000. Last spring it stood at $38,000; that's a jump of about 200% in a decade. Ayse Manyas Kenmore, Stanford's placement director, says that she expects salary offers to run $70,000 to $80,000 from consulting firms for next spring's graduates.

Eighty thou to start? Doesn't it figure to get that M.B.A. at all costs, from as good a school as will have you? Well, it's no longer that simple. For some would-be world-beaters, the apparent value of an M.B.A. degree may be deceiving. Maybe the real cost is too high.

There are two reasons for this seeming paradox. First, most top schools now require "real world" experience before a student can even apply for admission. As a result, top-level undergrads who would normally go straight into graduate school first get a job. If they have potential, they will be moving up soon enough—without the M.B.A. Second, of course, is the substantial cost of attending school itself on top of the job income no longer coming in.

Look at the numbers. Suppose you are a bright young graduate of a top school—Harvard, for example. You want to go to the B-school, but you need to wait a year to apply. You keep your intentions to yourself and take a job with Happibank, starting at $25,000 per year. In six months you get a raise and a promotion, to $30,000, and you are on a fast track. Suddenly, the B-school beckons.

If you go off to school for two years, you will lose at least $60,000 in salary, not counting other raises and promotions that might have followed. Add to that about $35,000 out-of-pocket for room and board, tuition, etc. So your true cost for the M.B.A. could approach $100,000.

Upon graduation, of course, you could be able to command a starting salary of $50,000 or more. But where would you be if you had stayed with Happibank in the first place? (And, if Happibank really liked you, they might even have been willing to pay you to get more training, perhaps even an M.B.A. part time, while you were still on the payroll.) Your hard-won M.B.A. in hand, you are gambling that over the years your M.B.A. will generate far more than the $100,000 it cost you to get it.

But isn't the M.B.A. worth the most at the start of a career? After a year or two off the campus, you will be judged on performance, rather than on potential.

So, is the M.B.A. worth getting after all? Well, let's not get too hung up on numbers. Maybe two years in B-school will leave you knowing a good deal more than just what salary to expect upon graduation. ■

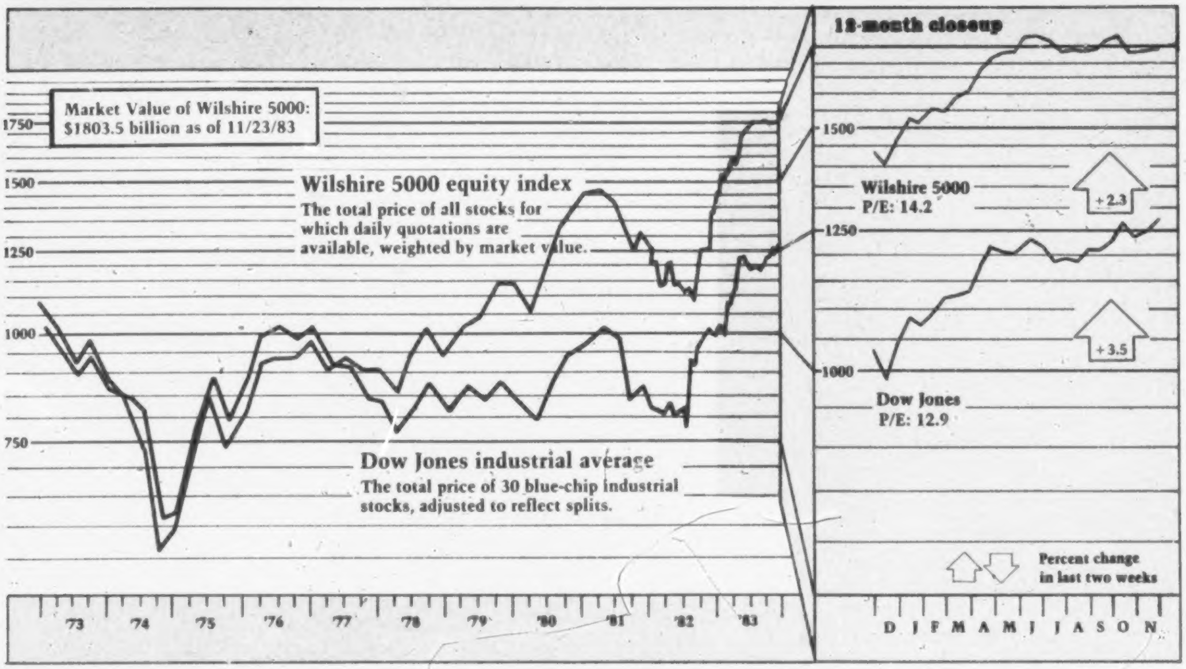
Talk about opportunity costs!

The market price on new M.B.A.s is rising as the effects of the recession fade. Here are current figures from 14 of the nation's better-known B-schools.

School	—Median starting salary— spring 1983	spring 1978	Applicants for admission 1983	Number admitted fall 1983	% men/ women	% with 1 or more years' work experience	Estimated annual expenses*
Carnegie-Mellon	$32,748	$21,000	902	127	80%/20%	60%	$15,025
Chicago	34,762	20,128	3,206	478	79/21	74	15,600
Columbia	34,534	21,841	2,947	464	67/33	80	14,040
Dartmouth (Amos Tuck)	35,000	22,100	1,700	140	76/24	92	17,000
Harvard	38,000E	24,000	5,800	785	75/25	97	16,700
MIT	36,200	23,800M	1,445	193	73/27	80	17,950
Michigan	29,400E	20,178M	1,631	362	72/28	50	8,874/12,538†
NYU	30,600	19,700M	1,932	370	59/41	83	15,352
Northwestern	31,100E	20,100	3,043	450	67/33	83	16,200
Pennsylvania (Wharton)	37,854M	21,890M	3,400	610	72/28	97	16,000
Stanford	39,200E	24,000	4,686	316	75/25	93	16,600
Texas	27,027M	18,100E	1,788	642	67/33	under 15	5,610/6,900†
UCLA	32,713M	19,781	3,275	360	64/36	91	9,500/12,500†
Virginia	33,000	21,500	1,344	241	75/25	95	8,436/11,576†

*Includes tuition, room and board, fees, books and living expenses for a single student. †In-state student/out-of-state student. E: Estimate. M: Mean.

The Forbes/Wilshire 5000 Review



Shopping early. After a slow autumn, Wall Street is coming alive. During the most recent two-week period there were two consecutive days in which volume on the Big Board exceeded 100 million shares. After all the dust settled, the NYSE was sitting on a 2.1% gain. But the blue chip Dow, buoyed by strong trading in soon-to-be-splintered AT&T, gained 3.5% during the same time. Investor enthusiasm also carried into secondary issues. The Amex posted a 2.8% gain, and the NASDAQ was up 5.1%. This is the best two-week performance for over-the-counter securities since the end of 1982. It could indicate a break in NASDAQ's long run of profit-taking and panic-selling.

After weeks of seeking shelter in defensive stocks, investors now show some interest in the recently battered high-volatility stocks, which outperformed low-volatility shares by a more than 2-to-1 margin. On the other hand, low-growth issues did better than high-growth issues. The fact that the action was heavy and spread over two different parts of the market indicates that year-end bargain hunters were out in force.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	1.2	0.8	2.6	1.0	2.9	2.5
in last 52 weeks	25.3	24.4	27.6	24.2	34.9	25.5

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	1.9	2.1	2.9	1.3	1.9	3.0	0.8	2.7	0.8	2.0	2.3	−0.2
in last 52 weeks	26.6	76.2	62.6	34.9	42.0	71.9	31.6	68.5	68.4	34.0	36.0	64.3

[1] Based on sales.

[2] A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

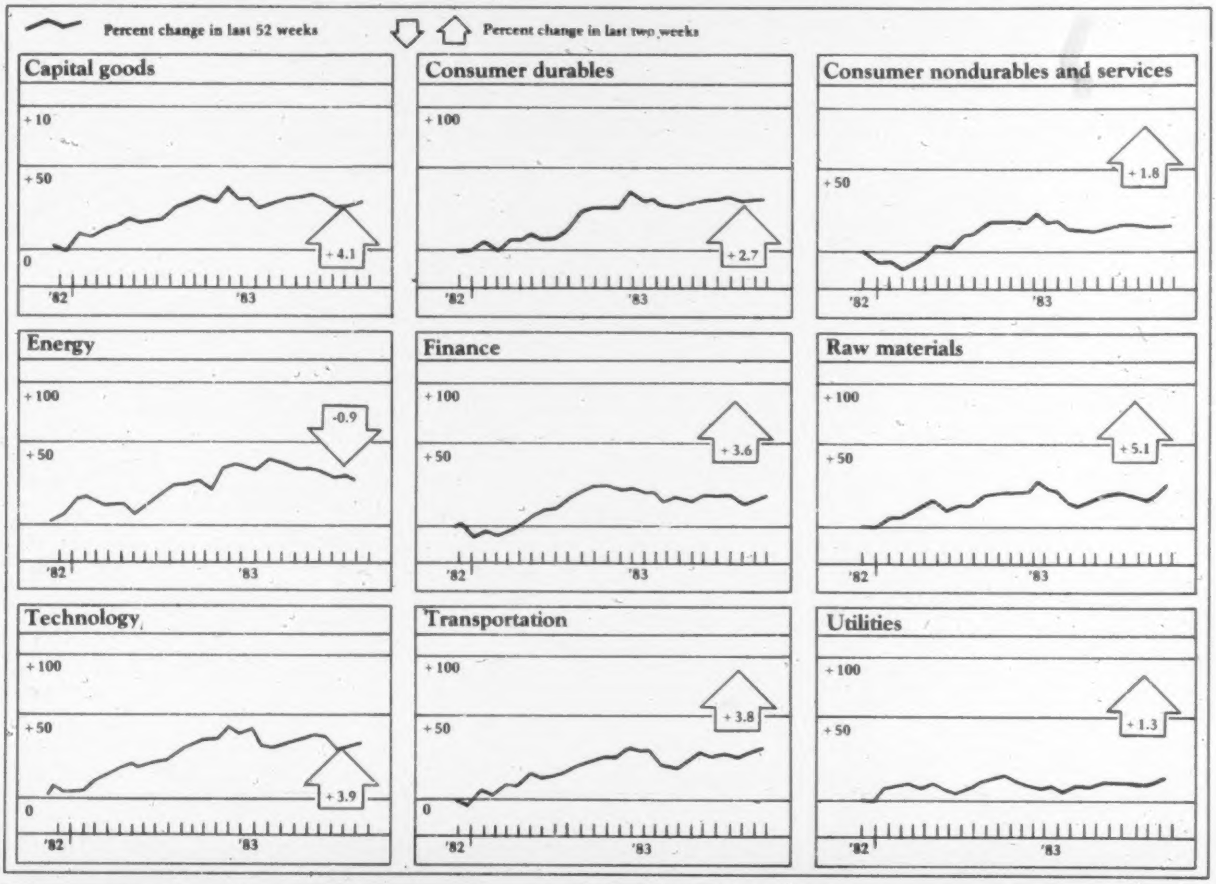
[3] A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 11/23/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

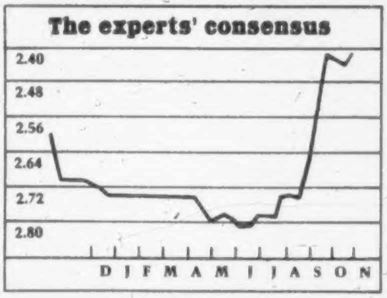
Expecting a breakout? The market showed good underlying strength, with recovery spilling over from the continuing strong retailing and service stocks to previously neglected capital goods and natural resource stocks. Over the most recent two weeks raw materials issues gained 5.1%, and capital goods stocks were up 4.1%.

Technology shares, meanwhile, continued their recovery with a 3.9% gain. The finance, transportation and consumer durables groups also registered impressive gains. Only energy shares lost ground. The rally in the oils that began earlier in the year has faded. But with so many groups strong, the overall market has a healthy tone and seems in an excellent position to test its old highs shortly after year-end, if not before.



What The Analysts Think

Keeping the lights on. Energy stocks, the only group to lose ground in the market over the last two weeks, advanced from eighth to seventh in analyst buy/sell rankings. Utilities, the second-poorest performing group, remain in first place. Meanwhile, the analysts dropped market-leading capital goods from sixth to eighth place.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	1.83	1	1
2	Consumer durables	2.24	2	2
3	Raw materials	2.35	3	3
4	Transportation	2.36	4	4
5	Technology	2.39	5	5
6	Consumer nondurables	2.55	7	6
7	Energy	2.58	8	8
8	Capital goods	2.62	6	7
9	Finance	2.86	9	9

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 11/23/83. Prepared by Wilshire Associates, Santa Monica, Calif.

JANUARY 2, 1984 THREE DOLLARS

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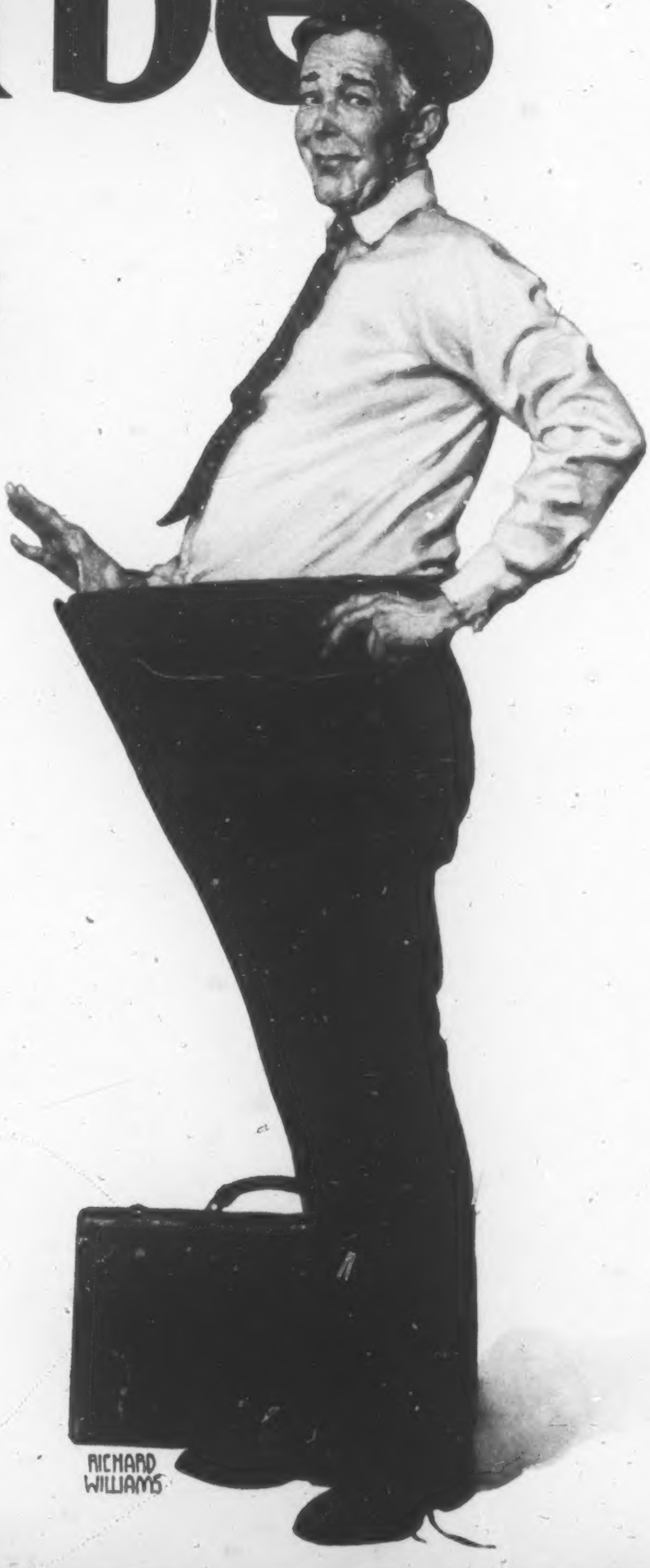
Forbes

36th ANNUAL REPORT ON AMERICAN INDUSTRY


RICHARD WILLIAMS

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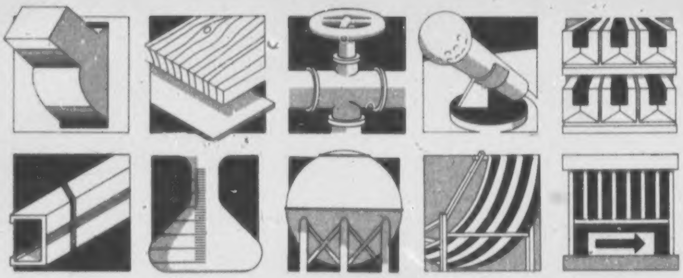
Forbes

Annual Report On American Industry



January 2, 1984 Volume 133, Number 1

How the 1,008 largest U.S. public companies compare in profitability, growth and stock market performance on the Forbes Yardsticks, and what lies ahead in 1984.

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In Japanese *tako hai* means a corporation that pays dividends out of capital like an octopus that eats its own tentacles to survive. That's what U.S. business has been through.

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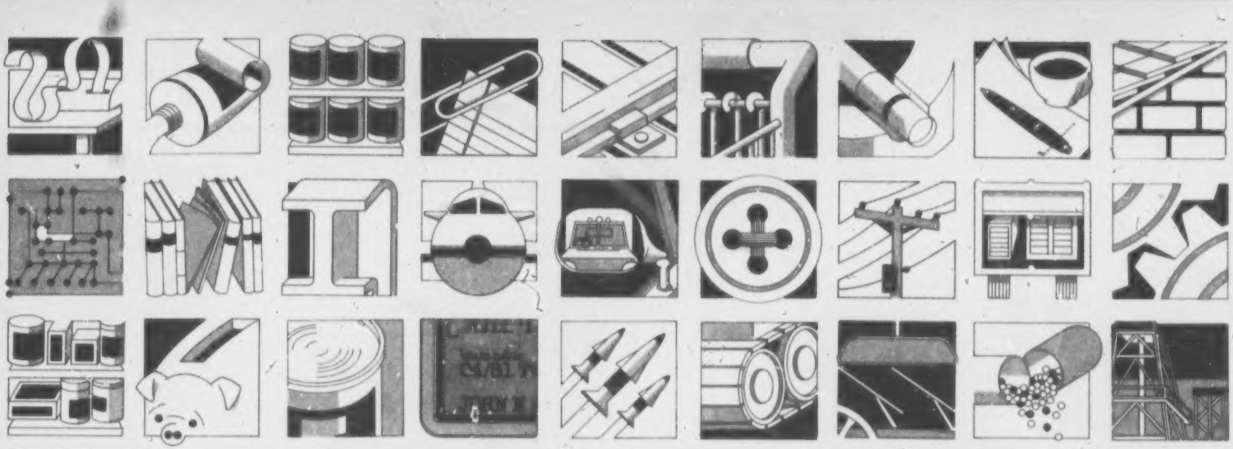

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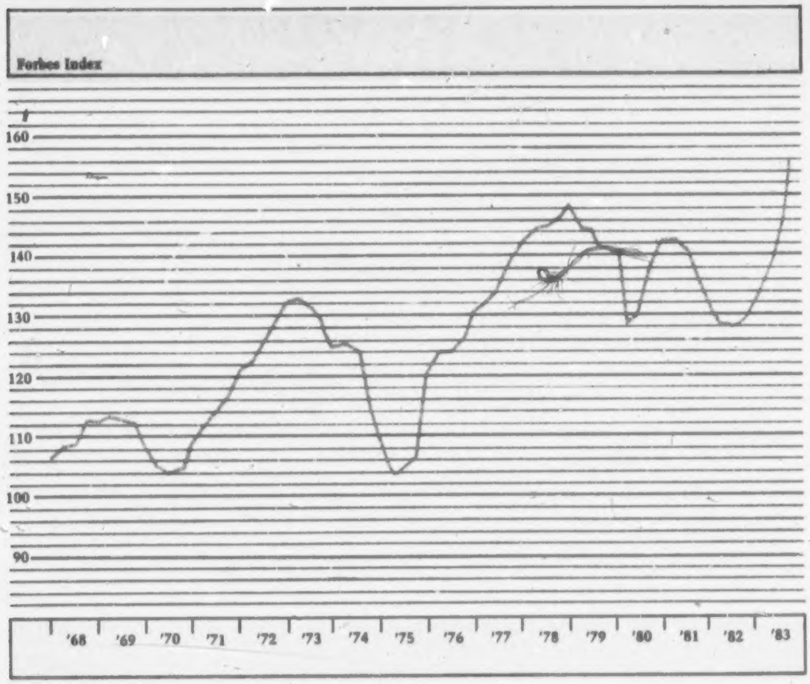
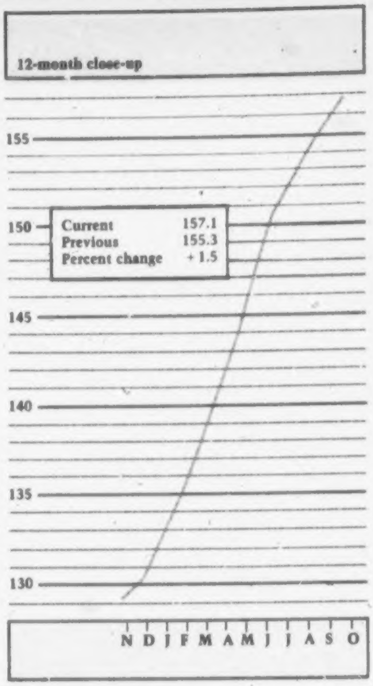
The Forbes Index



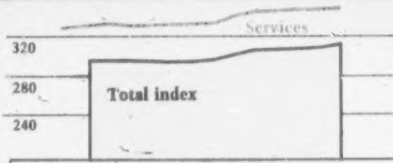


Strong and steady. In the current reporting period new figures for two components propelled the Forbes Index to another of 1983's records—1.5% above the previous peak. Our measure of overall economic activity is more than 20% above where it stood at the end of 1982. In October 1982, manufacturers' new orders were at a recessionary low. But with a 3.1% month-to-month rise, this figure is nearly 35% higher than it was during the same period in 1982. Meanwhile, manufacturers' inventories posted only a 0.2% gain. Inventories are more than 6% lower than the bloated levels of 1982. This isn't too surprising. More firms are emulating Japanese just-in-time management techniques. As the recovery continues to build momentum, overheating does not yet appear to be a problem.

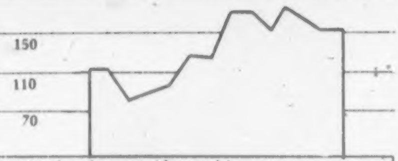
The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

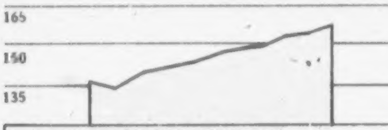
To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series is presented at right.



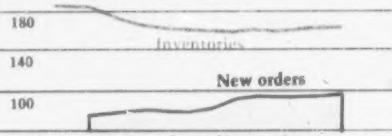
Consumer price indexes (1967 = 100)
all urban consumers, unadjusted (Dept. of Labor)



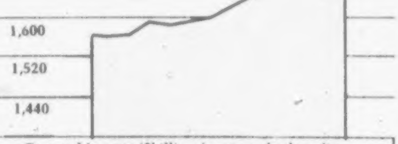
New housing starts (thousands)
privately owned, unadjusted (Dept. of Commerce)



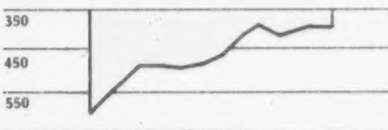
Industrial production index (1967 = 100)
Seasonally adjusted (Federal Reserve)



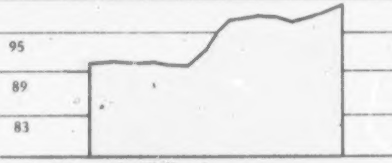
Manufacturers new orders and inventories ($billions) seasonally (Dept. of Commerce)



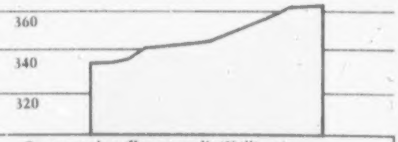
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims (thousands)
seasonally adjusted (Dept. of Labor)



Retail store sales ($billions)
seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions)
total, seasonally adjusted (Federal Reserve)

The Forbes Yardsticks 1983

What they measure—and how

The Forbes 36th Annual Report on American Industry evaluates management performance at the nation's largest public companies. Included in our universe of 1,008 companies is every firm with revenues of over $450 million, and our data include both five-year averages and results for the latest 12 months.

The numbers in this issue chart companies according to profitability, growth and stock market performance. In addition, we measure profit margins and debt/equity ratios. Forbes compares each company with competitors in its own industry and against every other firm we rank. We also compare the medians for the 46 major industry groups with each other.

To locate a company, refer to the table that begins on page 39. It lists the firms alphabetically, giving the pages where each industry survey begins and where the appropriate Yardsticks appear. This table also provides each company's overall rankings in terms of profitability, growth and stock market performance.

For those of a serious statistical bent, here is how we calculate the Yardsticks: Return on stockholders' equity is the percentage return on the stockholders' portion of a company's capital. We derive this by taking earnings per common share (primary basis) as a percentage of stockholders' equity per share at the start of the year. We assume that all convertible preferred has been converted, which explains why our figure is lower than some others.

Where to find the Yardsticks

Industry median rankings, p. 248
Profitability rankings, p. 254
Growth rankings, p. 264
Stock market rankings, p. 274

The five-year return in our Yardsticks tables is the average of the returns calculated for the four full years 1979 through 1982, plus the 12-month period ending with the most recent quarterly report. (For companies with fiscal years ending in January, February or March, the years 1980-83 are used in place of 1979-82.)

Return on total capital is the percentage return on a combination of stockholders' equity (both common and preferred) and long-term debt, including current maturities, minority stockholders' equity in consolidated subsidiaries, accumulated deferred taxes and investment tax credits. The profit figure for this calculation includes net income, minority interest in net income and estimated aftertax interest paid on long-term debt.

For companies that derive all their capital from common equity, return on stockholders' equity and return on total capital will be nearly identical. A company that employs debt, however, can boost return on stockholders' equity, provided that it earns more on the borrowed money than the borrowed money costs after taxes.

Debt/equity ratio indicates to what extent management is using borrowed funds, so-called leverage, in an attempt to increase profits. The ratio is calculated at the end of the last reported fiscal year. We divide long-term debt (including current maturities) by permanent capital, which we define as total stockholders' equity plus minority stockholders' interest, accumulated deferred taxes and investment tax credits. A high debt-to-equity ratio makes earnings more volatile; it is usually considered prudent only in relatively stable industries.

Net profit margin comes from dividing net profits for the latest 12 months by net sales. The resulting number indicates what percentage of each dollar of revenue is available for dividends and reinvestment. Profit margins are best used as comparisons only among companies in similar industries. A starvation margin for an industrial company, for example, could be spectacular at a supermarket chain.

To smooth the yearly variations, we look back ten years to measure five-year sales and earnings-per-share growth. We then average these figures for the most recent five years (1979 through the latest 12 months) and compute the percentage change from the average for the preceding five years (1974 through 1978). We then express that change in terms of a five-year compound annual rate of growth, since the midpoints of the two periods are five years apart. This long-term focus differentiates our Annual Report from most other statistical compilations.

Where to find the company

Company	Rank Profitability	Growth	Stock market	Industry survey page
Abbott Laboratories	80	144	202	213
ACF Industries	769	766	570	190
Acme-Cleveland	876	821	807	194
Aetna Life & Casualty	477	464	689	63
H F Ahmanson	896	886	580	60
Air Prods & Chems	345	334	499	173
Albertson's	119	196	165	228
Alcan Aluminium	565	318	351	160
Alco Standard	281	423	253	226, 244
Alexander & Alexander	116	655	942	55
Alexander & Baldwin	464	488	252	104
Alexander's	932	912	250	231
Alleghany	378	272	200	55
Allegheny Beverage	40	81	69	183, 211
Allegheny Intl	809	721	433	204, 244
Allegheny Power	545	602	518	90
Allen Group	891	871	434	99
Allied Bancshares	64	96	159	57
Allied Corp	681	645	422	74, 173, 244
Allied Stores	637	568	296	231
Allied Supermarkets	997	979	138	228
Allis-Chalmers	979	925	959	109, 194
Alcoa	732	563	489	160
AM International	992	925	976	183
AMAX	892	879	943	160
Amdahl	855	877	935	180
Amerace	880	869	655	194
Amerada Hess	314	236	412	74
American Bakeries	966	925	803	208
American Brands	126	174	348	222, 244
Amer Broadcasting	275	297	591	240
American Can	895	889	744	224
American Cyanamid	687	722	394	173, 220
American District	598	483	432	176
American Elec Power	719	778	924	90
American Express	165	259	326	55, 63
American Family	498	737	264	63
American General	356	280	272	63
American Greetings	390	236	68	235
Amer Hoist & Derrick	929	920	908	190
American Home Products	21	332	486	204, 215
Amer Hospital Supply	327	233	291	213, 226
American Intl Group	135	110	338	63
Amer Maize-Products	828	798	292	208
Amer Medical Intl	172	52	217	213
American Motors	988	979	572	109
American Natl Ins	670	334	465	63
Am Natural Resources	310	418	881	78
American Petrofina	385	502	356	74
American President	**	**	**	104
American Standard	296	414	551	199, 244
American Stores	91	89	97	228, 231
American Tel & Tel	643	623	887	176, 237
AmeriTrust	727	621	735	57
Ametek	190	419	153	194
AMF	864	836	861	235, 244
Amfac	820	791	555	226, 244
AMP	83	188	142	176
Ampco-Pittsburgh	842	773	863	190
AMR	939	925	242	139
Amstar	609	690	226	208
Amsted Industries	595	698	905	190
Anchor Hocking	856	829	483	224

Company	Rank Profitability	Growth	Stock market	Industry survey page
Anderson, Clayton	759	540	725	206
Anheuser-Busch Cos	196	109	234	211
Anixter Bros	139	99	11	194
Apple Computer	1	5	957	180
ARA Services	714	691	704	231
Archer Daniels Midland	404	265	174	206
Arden Group	760	**	121	228
Arizona Public Service	532	700	862	90
Arkla	183	394	248	78
Armco	950	925	919	154
Armstrong Rubber	870	788	214	99
Armstrong World Inds	824	732	480	199
Arvin Industries	841	848	396	99
ASARCO	787	241	425	160
Ashland Oil	104	369	922	74
Associated Dry Goods	731	526	105	231
Athlone Industries	834	863	884	154
Atlanta Gas Light	782	742	759	78
Atlantic City Elec	663	714	738	90
Atlantic Richfield	148	137	642	74
Auto Data Processing	180	170	321	183
Avco	672	771	669	55
Avery International	420	251	157	194
Avnet	295	380	45	176
Avon Products	93	679	965	220, 231
Avondale Mills	878	779	859	217
Baker International	198	203	827	84
Baldwin-United	973	925	974	55
Ball Corp	360	304	224	224
Bally Manufacturing	175	61	898	235
Baltimore Gas & Elec	628	614	732	90
Banc One	268	299	189	57
BanCal Tri-State	793	566	285	57
BancOhio	858	805	850	57
Bangor Punta	859	294	739	144, 244
Bank of Boston	420	185	347	57
Bank of New England	287	208	314	57
Bank of New York	470	442	475	57
BankAmerica	572	616	941	57
Bankers Trust NY	300	135	270	57
Barnes Group	850	833	557	99
Barnett Banks Fla	335	121	188	57
Bausch & Lomb	386	448	226	213
Baxter Travenol Labs	256	157	254	213
Beatrice Foods	592	680	720	208
Becton, Dickinson	623	560	798	213
Bell & Howell	886	738	229	183
Bemis	777	628	429	224
Beneficial Corp	897	894	682	55, 231
Bergen Brunswig	212	23	14	226
Berkshire Hathaway	785	70	19	63, 208
Best Products	512	600	687	231
Bethlehem Steel	975	925	805	154
Beverly Enterprises	198	7	53	213
Big Bear	6	41	**	228
Big Three Industries	320	262	790	84, 173
Big V Supermarkets	97	117	181	228
Bird	971	925	951	199
Black & Decker	786	794	660	204
Blount	182	216	204	202
Blue Bell	496	694	516	217
Boeing	126	83	746	144
Boise Cascade	821	761	634	170, 199

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

Where to find the company

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Borden	614	493	367	208
Borg-Warner	560	329	155	99, 244
Borman's	931	907	781	228
Boston Edison	665	524	821	90
Briggs & Stratton	309	617	793	194
Bristol-Myers	114	300	284	215
Brockway Inc (NY)	852	809	888	224
Brooklyn Union Gas	427	402	558	78
Brown-Forman Dist	106	67	413	211
Brown Group	311	153	114	217, 231
Browning-Ferris Inds	197	93	75	194
Bruno's	17	34	**	228
Brunswick	173	138	108	235
Bucyrus-Erie	875	872	902	190
Burlington Inds	849	759	364	217
Burlington Northern	712	134	49	148
Burroughs	837	808	952	180
Business Men's Assur	472	36	641	63
Butler Manufacturing	794	822	923	199
Cabot	140	48	256	74, 160, 173
Caesars World	387	17	734	235
Calif Federal S&L	**	905	**	60
California First Bnk	724	665	808	57
Cameron Iron Works	229	267	665	84
Campbell Soup	451	513	544	208
Capital Cities Commun	126	122	130	240, 242
Capital Holding	515	386	601	63
Carnation	280	378	454	208
Carolina Pwr & Lt	640	694	844	90
Carpenter Technology	434	492	574	154
Carson Pirie Scott	728	649	411	231
Carter Hawley Hale	789	792	685	231
Castle & Cooke	881	867	891	208
Caterpillar Tractor	866	878	945	109, 190
CBI Industries	186	389	747	202
CBS	470	739	719	240
CBT	388	196	361	57
Ceco	672	203	195	199
Celanese	832	770	450	173
Centel	289	500	630	237
Centerre Bancorp	699	630	688	57
Centex	266	151	269	202
Central & South West	445	550	769	90
Central Illinois Lt	607	532	684	90
Central Ill Pub Svc	600	696	753	90
Central Soya	780	739	800	206
Central Steel & Wire	630	575	441	154
CertainTeed	936	923	761	199
Cessna Aircraft	761	796	766	144
CFS Continental	590	308	83	226
Champion Intl	830	834	840	170, 199
Champion Spark Plug	800	840	883	99
Charter	16	62	428	74
Chase Manhattan	513	235	621	57
Chemical New York	481	366	522	57
Chesebrough-Pond's	142	300	540	220
Chic & North Western	347	448	13	148
Chic Pneumatic Tool	944	925	955	194
Chromalloy American	917	911	946	244
Chrysler	995	979	168	109
Chubb	383	251	426	63
CIGNA	**	660	**	63
Cincinnati G & E	600	686	954	90
Cincinnati Milacron	436	206	236	194
Circle K	312	528	184	228
Citicorp	418	433	651	57
Citizens & Sthrn Ga	399	26	241	57
City Federal S & L	781	373	89	60
City Investing	596	451	282	63, 244
Clark Equipment	919	915	909	109, 190
Cleveland Elec Illum	568	719	852	90
Clorox	263	445	305	204
Cluett, Peabody	750	258	273	217
CNA Financial	271	4	374	63
Coastal Corp	549	705	708	74
Coca-Cola	123	438	777	211
Cole National	156	169	43	231
Coleco Industries	4	**	8	235
Colgate-Palmolive	502	709	698	204, 220
Collins & Aikman	698	604	74	217
Colonial Penn Group	706	842	899	63
Colt Industries	775	854	257	154
Columbia Gas System	550	560	775	78
Combined Internatl	221	488	322	63
Combustion Eng	202	194	431	194
Comdisco	11	18	46	183
Comerica	704	664	834	57
Commercial Metals	490	472	94	154
Commonwealth Edison	654	720	366	90
Commonwealth Energy	523	558	708	90
Computer Sciences	95	250	650	144, 183
ConAgra	85	51	76	206, 208
Cone Mills	718	716	243	217
Consolidated Edison	580	450	379	90
Consolidated Foods	305	247	386	208
Consol Freightways	225	399	268	104
Consol Natural Gas	524	464	529	78
Consolidated Papers	258	311	535	170
Consumers Power	689	713	940	90
Continental Corp	801	756	832	63
Continental Group	633	531	479	224
Continental Illinois	660	655	934	57
Continental Telecom	478	554	610	237
Control Data	735	84	249	55, 180
Cook United	956	979	831	231
Cooper Industries	274	352	682	194
Adolph Coors	803	747	612	211
Copperweld	863	865	715	154
Corestates Financial	527	377	382	57
Corning Glass Works	687	606	760	176, 244
Cox Communications	204	141	190	240
CPC International	238	382	598	208
Crane	856	868	802	154, 199
Crocker National	683	591	815	57
Cross & Trecker	200	98	851	194
Crown Central Petroleum	403	413	365	74
Crown Cork & Seal	662	575	778	224
Crown Zellerbach	899	892	846	170
CSX	779	420	599	148
Culbro	325	152	107	222
Cullum Companies	137	69	289	228
Cummins Engine	879	861	318	99
Curtice-Burns	268	405	145	208
Cyclops	910	880	520	154
Dana	704	776	670	99
Dart & Kraft	457	510	647	208

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

Where to find the company

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Data General	560	474	813	180
Datapoint	417	181	631	180
Dayco	867	855	755	99, 194
Dayton-Hudson	290	461	106	231
Dayton Power & Light	608	657	911	90
Dean Foods	102	119	60	208
Deere	826	835	875	109
DEKALB AgResearch	748	765	889	206
Delmarva Power & Lt	636	661	706	90
Delta Air Lines	829	823	471	139
Deluxe Check Printers	41	166	247	242
Dennison Mfg	491	527	323	194
Denny's	306	435	383	231
DeSoto	721	477	260	199
Detroit Edison	721	707	837	90
Dexter	299	396	521	173
Di Giorgio	838	267	824	208, 226
Diamond Shamrock	602	830	824	74, 173
Dibrell Brothers	427	257	161	226
Digital Equipment	397	119	772	180
Dillard Dept Stores	440	201	27	231
Walt Disney	726	482	787	235
Diversified Energies	422	504	562	78
Dr Pepper	225	674	849	211
Dominion Resources	755	757	848	90
Donaldson, Lufkin	577	**	95	71
R R Donnelley & Sons	380	270	178	242
Dorchester Gas	77	132	280	74
Dorsey	765	588	203	224
Dover	72	148	194	199
Dow Chemical	556	785	741	173
Dow Jones	29	175	44	242
Dravo	918	906	948	202
Dresser Industries	581	654	874	84
E I du Pont	559	495	785	74, 173
Duke Power	543	506	754	90
Dun & Bradstreet	32	167	144	242
Duquesne Light	715	777	856	90
Dynalectron	381	31	137	202
E-Systems	247	326	24	144
Eagle-Picher Inds	783	807	830	194
Easco	709	795	491	99
Eastern Air Lines	982	925	949	139
Eastern Gas & Fuel	621	659	594	74
Eastman Kodak	267	452	794	235
Eaton	887	885	352	99
Echlin	626	680	679	99
Jack Eckerd	330	368	590	231
Economics Laboratory	645	726	729	204
Edison Bros Stores	332	593	705	231
EG&G	37	71	85	176
El Paso	844	900	633	78
Electronic Data Systems	63	183	22	183
Emerson Electric	150	305	519	197
Emery Air Freight	61	710	751	139
Emhart	378	578	661	194
Engelhard	213	269	**	160
ENSERCH	285	378	408	78
Entex	118	249	620	78
Equifax	188	555	218	242
Equitable of Iowa	795	620	782	63
Esmark	73	106	61	208, 244
Ethyl	506	645	302	173

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Evans Products	952	925	938	199
Ex-Cell-O	537	412	421	194
Exxon	190	298	640	74
Fairchild Industries	125	53	438	144
Farm House Foods	736	819	193	226
Farmers Group	258	244	542	63
Federal Co	615	711	743	208
Federal Express	22	15	37	139
Federal-Mogul	374	382	304	99
Fedl Natl Mortgage	946	925	655	55
Federal Paper Board	581	640	585	170
Federated Dept Stores	518	503	506	231
Ferro	703	735	666	173
Fidelcor	630	160	180	57
Fieldcrest Mills	747	673	655	217
Figgie Intl Holding	393	240	378	244
Fin Corp of America	8	13	9	60
Firestone	915	863	507	99
First Atlanta	344	127	134	57
First Bank System	497	439	676	57
First Boston	51	33	40	71
First Chicago	784	755	796	57
First City Bancorp	358	311	868	57
First Executive	70	3	2	63
First Interstate Bancp	425	283	524	57
First Natl State Bcp	447	344	447	57
First Natl Supermkts	317	309	459	228
First Pennsylvania	974	925	964	57
First Security	360	426	717	57
First Union	350	150	225	57
First Wisconsin	577	158	508	57
Fischbach	349	324	410	202
Fisher Foods	839	852	858	228
Fleet Financial	301	138	211	57
Fleetwood Enterprises	690	586	42	235
Fleming Cos	272	367	150	226
Flickinger	375	307	172	226
Florida Power & Lt	621	598	602	90
Florida Progress	658	703	692	90
Flowers Industries	234	313	119	208
Fluor	262	334	604	202
FMC	617	533	500	144, 173, 244
Food Lion	30	49	51	228
Foodarama Supermkts	921	908	576	228
Ford Motor	951	925	648	109
Fort Howard Paper	82	223	221	170
L B Foster	12	922	**	84
Foster Wheeler	142	178	391	194
Foxboro	693	642	654	194
Frederick & Herrud	577	454	388	206
Freeport-McMoran	79	118	290	173
Fremont General	100	424	301	63
Frontier Holdings	526	649	857	139
Fruehauf	901	888	554	109
Fuqua Industries	253	22	41	244
GAF	965	925	686	173, 199
Gannett	138	234	372	242
Gas Service	848	806	872	78
Gates Learjet	448	556	615	144
GATX	744	545	770	190
GEICO	14	**	17	63
Gelco	287	306	873	194
General Cinema	39	76	62	211, 235

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

Where to find the company

	Rank			
Company	**Profitability**	**Growth**	**Stock market**	**Industry survey page**
General Dynamics	223	68	135	144
General Electric	178	352	317	197, 204, 244
General Foods	362	463	629	208
General Host	539	**	63	231
General Instrument	211	43	133	176
General Mills	219	275	474	208
General Motors	860	874	697	109
General Public Utils	912	898	970	90
General Re	134	101	213	63
General Refractories	985	925	900	194
General Signal	448	331	472	194
Genl Tire & Rubber	871	847	614	99, 144
Genesco	900	**	358	217, 231
Genuine Parts	181	317	560	99
Geo International	161	644	**	84
Georgia-Pacific	816	831	886	170, 199
Gerber Products	405	473	340	208
Getty Oil	282	173	448	74
Giant Food	207	163	67	228
Gibraltar Financial	953	925	842	60
Gifford-Hill	[illegible]11	769	730	199
Gillette	245	487	465	220
Glendale Federal S&L	**	914	**	60
Global Marine	42	6	233	84
Godfrey	713	733	758	228
Golden West Finl	481	753	197	60
B F Goodrich	903	846	504	99
Goodyear	808	700	417	99
Gordon Jewelry	519	354	355	231
Gould	720	818	836	176
W R Grace	451	564	530	173, 244
W W Grainger	298	325	495	197
Graniteville	947	925	632	217
Great Atl & Pac Tea	969	979	437	228
Gt Northern Nekoosa	596	552	528	170
Gt Western Financial	916	902	724	60
Greyhound	533	441	405	104, 206
Grumman	778	828	124	144
GTE	505	623	579	176, 237
Gulf & Western Inds	750	802	311	244
Gulf Oil	602	514	498	74
Gulf Resources & Chem	958	925	484	74, 173
Gulf States Utils	556	637	788	90
Gulf United	433	303	327	63
Gulfstream Aerospace	**	**	**	144
Halliburton	260	400	833	84
Hammermill Paper	738	648	399	170
Handy & Harman	342	543	345	160
Hanna Mining	925	915	947	154
Hannaford Bros	215	264	77	228
Hanover Insurance	303	140	136	63
Harcourt Brace Jovan	555	559	501	242
Harnischfeger	977	925	961	190
Harris Bankcorp	791	750	251	57
Harris Corp	304	180	756	176, 194
Harsco	576	683	556	194
Hartmarx	664	226	84	217
Harvey Hubbell	323	347	278	197
Hawaiian Electric	776	712	785	90
Heck's	480	428	324	231
G Heileman Brewing	31	46	20	211
H J Heinz	231	201	263	208
Walter E Heller Intl	868	851	485	55
Hercules	609	455	328	173
Hershey Foods	215	286	182	208
Hewlett-Packard	202	102	167	176, 180
Hilton Hotels	96	111	259	235
Holiday Inns	630	330	166	235
Holly Corp	351	447	792	74
Home Federal S&L-Cal	**	925	**	60
Honeywell	509	229	476	176, 180
Hoover	846	731	293	204
Hoover Universal	591	753	534	99
George A Hormel	514	410	319	206
Hospital Corp of Am	227	64	116	213
Household Intl	675	746	452	55, 231, 244
Houston Industries	616	669	819	90
Houston Natural Gas	98	238	427	78
HRT Industries	983	979	973	231
Hughes Tool	358	221	780	84
Humana	27	20	47	213
E F Hutton Group	36	40	25	71
Hyster	707	715	419	109, 190
IC Industries	827	688	510	148, 208, 244
Ideal Basic Inds	798	815	904	199
Idle Wild Foods	395	479	623	206
Illinois Power	542	687	917	90
Illinois Tool Works	319	340	339	194
Imperial Corp of Am	**	925	**	60
Inco	968	925	928	160
Indianapolis Pwr & Lt	484	538	740	90
Ingersoll-Rand	766	800	897	194
Inland Steel	942	925	937	154
Insilco	524	573	369	204
Intel	291	270	72	176
Interco	652	651	470	217
InterFirst	494	538	893	57
Interlake	853	820	515	154
IBM	99	428	567	180
Intl Flavors & Frag	144	408	789	220
Intl Harvester	987	925	972	109
Intl Minerals & Chem	440	741	457	173
Intl Multifoods	475	512	545	208
International Paper	624	632	693	170
Intl Tel & Tel	716	685	609	176, 244
InterNorth	329	498	363	78
Interpublic Group	243	434	462	242
Interstate Bakeries	961	925	712	208
Iowa-Illinois G & E	410	522	771	90
Irving Bank	467	315	511	57
IU International	147	302	303	104, 244
James River Corp Va	59	45	70	170
Jefferson-Pilot	650	507	763	63
Jerrico	294	159	98	231
Jewel Cos	333	207	306	228
Jim Walter	824	832	742	199
Johnson & Johnson	201	275	503	213
Johnson Controls	481	355	571	99, 197
Jonathan Logan	940	925	286	217
Earle M Jorgensen	541	626	458	154
Joy Manufacturing	575	582	605	190
K mart	606	657	546	231
Kaiser Alum & Chem	874	858	869	160
Kaiser Steel	957	925	337	154
Kane-Miller	920	899	212	208
Kaneb Services	124	436	810	84

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

Where to find the company

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Kansas City Pwr & Lt	583	615	749	90
Kansas Power & Light	509	607	607	90
Kaufman & Broad	927	838	482	202
Kay	547	541	699	206
Kellogg	49	375	561	208
Kellwood	861	841	461	217
Kelly Services	78	162	147	183
Kemper	377	288	478	63
Kentucky Utilities	734	749	750	90
Kerr Glass Mfg	930	921	662	224
Kerr-McGee	528	497	784	74
Keystone Consolidated	967	925	818	154
Kidde	488	360	424	244
Kimberly-Clark	285	319	329	170, 220
King Kullen Grocery	812	613	370	228
KN Energy	301	570	222	78
Knight-Ridder News	372	278	297	242
Koppers	885	882	914	244
Kroger	391	282	373	228
Laclede Gas	584	511	580	78
Lear Siegler	129	222	313	99, 144, 244
Leaseway Transportation	327	578	531	104
Levi Strauss	81	254	300	217
Levitz Furniture	702	360	71	231
Libbey-Owens-Ford	882	866	538	99
Life Investors	639	274	176	63
Eli Lilly	130	387	702	215
Limited	25	50	7	231
Lincoln National	696	483	502	63
Liquid Air	679	764	932	173
Litton Industries	76	**	139	244
Lockheed	57	881	35	144
Loews	117	108	103	63, 222
Lone Star Industries	823	758	801	199
Long Island Lighting	546	725	926	90
Longs Drug Stores	235	384	578	231
Longview Fibre	851	857	870	170
Louisiana Land	193	599	**	74
Louisiana-Pacific	864	826	595	170, 199
Louisville Gas & Elec	710	752	829	90
M Lowenstein	862	8	110	217
Lowe's Companies	468	631	154	226
LTV	769	533	325	154
Lubrizol	169	519	866	173
Lucky Stores	130	496	797	228
Lukens	928	913	936	154
M/A-Com	270	75	101	176
Mack Truck	938	925	**	109
Macmillan	893	891	170	242
R H Macy	195	104	26	231
Magic Chef	733	356	123	204
Malone & Hyde	308	428	349	226
Manhattan Industries	869	786	186	217
Manufacturers Hanover	491	491	816	57
Manufacturers National	755	744	680	57
Manville	909	895	963	199
MAPCO	235	702	930	74
Marine Midland Banks	761	176	603	57
Marion	962	925	971	74
Marriott	151	60	48	231, 235
Marsh & McLennan Cos	52	328	622	55
Marsh Supermarkets	402	369	341	228
Martin Marietta	282	321	240	144, 244

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Maryland National	530	376	380	57
Masco	136	296	175	199
Masonite	**	901	**	199
Massey-Ferguson	994	925	956	109
Mattel	963	925	931	235
May Dept Stores	493	507	335	231
Maytag	87	580	387	204
MCA	367	518	492	235
McCormick	401	388	446	208
McDermott Intl	815	849	843	84, 194
McDonald's	111	165	309	231
McDonnell Douglas	626	407	505	144
McGraw-Edison	701	634	652	197
McGraw-Hill	120	186	129	242
MCI Communications	35	**	5	237
McKesson	432	585	368	226
McLean Industries	342	1	**	104
Mead	830	850	613	170
Mei	43	57	31	211
Mellon National	587	349	588	57
Melville	71	214	255	217, 231
Mercantile Bancorp	419	408	649	57
Mercantile Stores	394	293	128	231
Mercantile Texas	183	211	332	57
Merck	110	427	678	215
Meredith	251	172	99	242
Merrill Lynch	107	66	78	71
Metromedia	2	19	79	240
MGM Grand Hotels	164	596	623	235
MGM/UA Entertainment	521	652	691	235
Michigan National	752	761	882	57
MidCon	556	626	**	78
Middle South Utils	641	727	880	90
Midland-Ross	834	815	845	194
Midlantic Banks	145	85	353	57
Milton Bradley	544	460	877	235
Minn Mining & Mfg	149	373	733	244
Mission Insurance	60	63	400	63
Mitchell Energy & Dev	19	55	66	74
Mobil	317	251	563	74
Mohasco	924	896	389	204
Monfort of Colorado	613	155	265	206
Monsanto	739	781	334	173
Montana Power	563	584	710	90
Moore Corp	346	537	586	183
Moore McCormack Res	721	742	817	199
J P Morgan	414	385	638	57
Morrison-Knudsen	407	213	215	202
Morse Shoe	686	698	407	231
Morton Thiokol	166	59	238	144, 173
Motorola	456	321	149	176
Mountain Fuel Supply	458	530	473	78
Munford	690	130	151	228
G C Murphy	840	633	191	231
Murphy Oil	121	82	398	74
Nabisco Brands	239	321	**	208
Nalco Chemical	92	358	331	173
Nash Finch	501	625	523	226
Nashua	935	919	864	183
National Can	629	401	725	224
National City	609	668	876	57
Natl Convenience Stores	53	78	54	228
National Distillers	769	797	713	173, 211, 244

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

Where to find the company

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
National Fuel Gas	661	500	716	78
National Gypsum	742	586	371	199
National Intergroup	964	925	892	154
Natl Medical Entrprs	163	38	58	213
Natl Semiconductor	488	568	127	176
National Svc Inds	190	212	143	173, 194, 197
National-Standard	933	918	903	154
NBD Bancorp	682	572	694	57
NCNB	382	209	402	57
NCR	484	404	360	180
New England Electric	426	443	443	90
N Y State Elec & Gas	540	602	811	90
New York Times	232	161	169	242
Newmont Mining	487	192	312	160
Niagara Mohawk Power	563	617	774	90
NICOR	653	730	879	78
A C Nielsen	153	227	207	242
NIKE	3	9	548	217
NL Industries	461	452	592	84
Nordstrom	279	199	125	231
Norfolk Southern	530	287	**	148
North American Coal	438	417	429	74
North Amer Philips	585	459	183	176
Northeast Utilities	665	704	664	90
No Indiana Pub Svc	817	838	910	78, 90
No States Power	475	521	596	90
Northern Trust	758	672	646	57
Northrop	506	677	299	144
Northwest Airlines	911	883	582	139
Northwest Energy	445	485	96	78
Northwest Industries	140	284	639	154, 244
Northwestern Steel	884	876	933	154
Norton	588	536	707	194
Norwest	605	547	731	57
Nucor	83	145	146	154
NVF	972	925	762	154
Oak Industries	905	925	944	176, 240
Occidental Petroleum	56	315	618	74
Ogden	516	677	625	244
Ohio Casualty	242	288	517	63
Ohio Edison	672	744	894	90
Oklahoma Gas & Elec	638	733	795	90
Old Republic Intl	189	203	409	63
Olin	833	775	593	173, 244
Oneok	353	610	673	78
Orange & Rockland	573	552	701	90
Outboard Marine	842	759	239	235
Owens-Corning Fbrgls	807	814	711	199
Owens-Illinois	814	728	463	224
Oxford Industries	397	200	16	217
Pabst Brewing	**	**	**	211
PACCAR	454	548	316	109
Pac Gamble Robinson	805	803	822	226
Pacific Gas & Elec	588	609	690	90
Pacific Lighting	468	364	597	78
Pacific Pwr & Lt	573	647	799	90
Pacific Resources	369	341	537	74
Paine Webber	254	314	29	71
Palm Beach	251	475	550	217
Pan Am World Airways	981	925	820	139
Panhandle Eastern	263	360	493	78
Pantry Pride	998	979	171	228
Parker Drilling	224	266	916	84
Parker-Hannifin	430	542	455	194
Parker Pen	697	784	552	183
Parsons	53	147	56	202
Pay Less Drug NW	162	190	109	231
Payless Cashways	176	136	87	231
Pay'n Save	569	634	341	231
Peabody Intl	922	910	**	194
Penn Central	710	100	117	244
Penn Traffic	649	683	636	228
J C Penney	667	595	403	231
Penn Power & Light	634	736	824	90
Pennwalt	801	801	736	173
Pennzoil	69	337	616	74
Peoples Drug Stores	363	86	80	231
Peoples Energy	503	691	**	78
PepsiCo	265	481	674	211
Perini	550	131	111	202
Perkin-Elmer	312	168	456	176
Petrie Stores	133	566	838	231
Petrolane	237	475	469	84
Pettibone	986	925	966	190
Pfizer	291	414	294	215
Phelps Dodge	914	862	835	160
PHH Group	88	112	112	194
Phibro-Salomon	15	47	**	226
Phila Electric	671	682	890	90
Philip Morris	88	171	436	222
Phillips Petroleum	275	380	878	74
Phillips-Van Heusen	809	44	223	217
Piedmont Aviation	155	285	91	139
Pillsbury	321	309	435	208
Pioneer	34	126	120	78
Pioneer Hi-Bred Intl	90	231	201	206
Pitney Bowes	293	346	208	183
Pittston	889	903	920	74, 231
PNC Financial	355	243	**	57
Pneumo	174	198	59	144, 228
Polaroid	890	859	950	235
Portland Genl Elec	641	689	925	90
Potlatch	804	810	806	170
Potomac Elec Power	618	573	606	90
PPG Industries	535	395	216	99, 173, 199
Primark	888	873	**	78
Procter & Gamble	206	360	773	204, 220
Provident Life & Acc	495	468	700	63
PSA	593	**	583	139
Public Service Colo	700	751	871	90
Public Service Indiana	412	564	939	90
Pub Svc Elec & Gas	676	696	779	90
Pueblo International	789	**	376	228
Puget Sound Pwr & Lt	684	768	927	90
Pulte Home	28	24	1	202
Purolator	171	277	113	99, 183
Quaker Oats	414	347	275	208
Quaker State Oil	535	670	668	74
Rainier Bancorp	553	486	607	57
Ralston Purina	462	604	344	208
Ramada Inns	955	925	765	235
Rath Packing	996	979	975	206
Raychem	321	94	298	197
Raymond Intl	774	827	477	202
Raytheon	103	177	453	144, 176, 244
RCA	757	793	757	55, 240, 244

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

Where to find the company

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Reading & Bates	227	227	375	84
Reichhold Chemicals	872	844	262	173
Republic Airlines	991	925	960	139
Republic New York	109	129	158	57
Republic Steel	949	925	839	154
RepublicBank	316	339	525	57
Research-Cottrell	822	470	912	194
Resorts Intl	113	72	619	235
Revco D S	156	154	163	231
Revere Copper	984	925	913	160
Revlon	465	611	953	220
Rexnord	819	843	907	194
R J Reynolds Inds	186	391	391	222
Reynolds Metals	883	853	841	160
Richardson-Vicks	455	398	**	215
Riegel Textile	745	728	644	217
Rite Aid	115	113	86	231
RLC	**	904	**	104
Roadway Services	166	356	230	104
Robertshaw Controls	806	617	310	197
H H Robertson	244	149	192	199
A H Robins	408	414	210	215
Rochester Gas & Elec	624	560	800	90
Rockwell Intl	257	224	141	99, 144
Rohm & Haas	486	103	104	173
Rohr Industries	357	**	549	144
Rollins	330	524	527	84, 240, 244
ROLM	10	14	50	237
Roper Corp	787	436	88	204
Rose's Stores	534	105	15	231
Royal Crown Cos	508	640	577	211
Ruddick	465	214	237	228
Ryan Homes	677	774	336	202
Ryder System	241	97	231	104
Safeco	443	333	414	63
Safeway Stores	571	666	737	228
Saga	412	391	36	231
St Paul Cos	410	403	587	63
St Regis	817	812	812	170
San Diego Gas & Elec	593	708	677	90
Sanders Associates	245	**	34	144
Santa Fe Industries	741	462	187	148
Savannah Foods	66	65	64	206
Savin	907	897	968	183
Schering-Plough	284	612	714	215
Schlumberger	23	54	514	84
SCM	792	663	442	170, 173, 199
SCOA Industries	55	88	81	217, 231
Scot Lad Foods	902	**	179	226
Scott & Fetzer	366	550	569	244
Scott Paper	752	543	377	170, 204
Scovill	740	411	653	199, 204
Seagram	565	115	115	211
G D Searle	159	189	122	215
Sears, Roebuck	764	722	404	55, 231
Seaway Food Town	396	344	494	228
Security Pacific	341	217	308	57
SEDCO	48	92	148	84
Service Merchandise	176	255	227	231
ServiceMaster Inds	13	73	118	213
Shaklee	67	229	209	213
Shawmut	693	123	277	57
Shell Oil	247	242	244	74

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Sheller-Globe	877	887	198	99
Sherwin-Williams	695	143	65	199
Shopwell	799	2	102	228
Signal Cos	685	580	315	109, 244
Singer	954	979	406	144, 204
Skyline	854	799	564	235
A O Smith	923	890	575	99
Smith International	565	661	929	84
SmithKline Beckman	18	56	717	215
Snap-On Tools	132	280	497	99
Society	647	622	752	57
SONAT	208	220	381	78
Sonoco Products	338	342	131	224
So Carolina E & G	657	722	823	90
Southeast Banking	479	219	460	57
Southern Calif Edison	499	597	611	90
Southern Company	651	693	783	90
So New England Tel	618	519	385	237
Southern Pacific	737	218	198	148
Southern Union	323	469	541	78
Southland	337	245	271	228
Southwest Bancshares	437	371	566	57
Southwest Forest Inds	926	909	894	170, 199
Southwestern Pub Svc	273	639	721	90
Sperry	746	718	901	109, 144, 180
Springs Industries	796	193	281	217
Square D	178	499	496	197
Squibb	553	675	512	215
A E Staley Mfg	443	522	357	206
Stanadyne	472	591	568	194
Std Comml Tobacco	217	320	288	226
Standard Oil Calif	260	246	667	74
Standard Oil Indiana	210	290	536	74
Standard Oil Ohio	9	21	366	74
Stanley Works	538	466	464	204
State Street Boston	220	28	33	57
Stauffer Chemical	655	772	727	173
Sterling Drug	367	507	486	215
J P Stevens	908	875	659	217
Stewart & Stevenson	730	782	723	194
Stewart-Warner	836	824	635	194
Stone Container	472	549	30	224
Stop & Shop Cos	326	278	18	228
Storage Technology	160	95	906	180
Strawbridge & Clothier	716	443	126	231
Student Loan Mktg	20	11	**	55
Subaru of America	5	12	3	109
Sun Banks	511	141	346	57
Sun Chemical	392	191	307	173
Sun Company	278	350	415	74
Sundstrand	218	290	390	144, 194
Super Food Services	609	571	160	226
Super Valu Stores	58	133	90	226
Superior Oil	336	30	267	74
Supermarkets General	152	116	132	228
Swift Independent	45	**	**	206
Sybron	906	893	790	213, 244
Sysco	204	127	39	226
Talley Industries	959	925	885	204
Tandy	7	29	55	231, 235
TECO Energy	499	535	696	90
Tecumseh Products	383	529	627	194
Tektronix	354	256	547	176

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

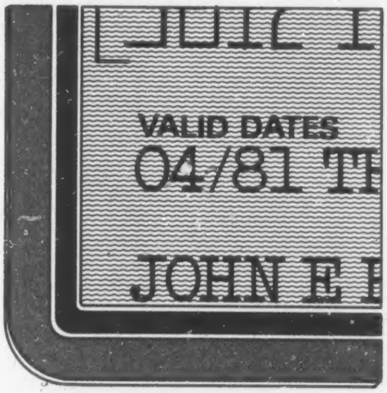
Where to find the company

Company	Rank Profitability	Growth	Stock market	Industry survey page
Teledyne	65	77	152	63, 244
Tenneco	372	608	763	74, 78
Tesoro Petroleum	46	91	467	74
Texaco	429	337	658	74
Texas Air	990	979	969	139
Texas American Bshs	439	372	440	57
Texas Commerce Bshs	146	146	333	57
Texas Eastern	333	439	509	78
Texas Instruments	754	790	565	176
Texas Oil & Gas	24	42	28	74
Texas Utilities	440	505	695	90
Textron	749	787	748	144, 244
Thriftimart	643	25	173	228
Thrifty Corp	376	164	279	231
Tidewater	221	457	637	84
Tiger International	980	925	977	139, 190
Time Inc	634	545	206	242
Times Mirror	249	327	246	242
Timken	847	825	828	194
Todd Shipyards	38	**	162	144
Toledo Edison	647	767	918	90
Torchmark	602	458	448	63
Toro	941	925	958	204
Tosco	44	925	894	74
Toys "R" Us	68	32	4	231
Trane	667	420	354	199
Trans World	943	925	488	139
Transamerica	409	294	533	55
Transco Energy	254	179	539	78
Transway Intl	669	783	573	104
Travelers	521	359	439	63
Tribune	678	813	**	242
Trinity Industries	86	182	92	194
Trust Co of Georgia	112	39	93	57
TRW	315	514	384	99, 176, 244
Turner Construction	75	107	219	202
Tyco Laboratories	62	114	156	197, 224
Tyler	371	628	526	194
Tyson Foods	453	393	283	206
UAL	948	925	847	139
UGI	742	705	865	78
UMC Industries	845	837	853	194
Union Camp	431	600	600	170
Union Carbide	707	748	444	173, 244
Union Electric	562	653	859	90
Union Pacific	570	292	395	74, 148
Uniroyal	945	925	228	99
United Brands	976	925	481	208
United Energy Resources	94	156	645	78
United Illuminating	423	636	855	90
United Merch & Mfrs	978	979	553	217
U S Bancorp	414	420	681	57
United States Gypsum	586	425	445	199
U S Home	516	195	140	202
U S Industries	913	859	393	244
United States Shoe	170	187	57	217
United States Steel	934	917	768	74, 154
United Technologies	369	471	543	144, 244
United Telecom	340	588	776	237
United Virginia Bshs	348	184	258	57
Univar	458	479	164	226
Universal Foods	365	556	804	208
Universal Leaf	233	261	362	226

Company	Rank Profitability	Growth	Stock market	Industry survey page
Unocal	213	260	397	74
Upjohn	230	351	814	215
USAir Group	154	58	82	139
USF&G	352	428	467	63
USLIFE	528	517	671	63
Utah Power & Light	656	675	745	90
Valero Energy	108	10	532	78
Valley National	364	273	584	57
Varian Associates	813	446	21	176
VF	47	74	23	217
Vulcan Materials	250	397	350	173, 199
Wachovia	460	343	232	57
Wal-Mart Stores	26	27	6	231
Waldbaum	389	210	100	228
Walgreen	156	80	38	231
Wang Laboratories	33	16	12	180
Warnaco	240	**	32	217
Warner Communications	275	455	628	235
Warner-Lambert	692	817	809	215
Washington Gas Light	729	583	728	78
Washington National	725	590	675	63
Washington Post	122	263	196	242
Waste Management	105	37	73	194
Del E Webb	904	870	672	202, 235
Weis Markets	168	225	235	228
Wells Fargo	520	432	722	57
Wendy's International	74	79	423	231
West Point-Pepperell	646	466	185	217
Western Air Lines	989	925	962	139
Western Co No Amer	101	124	295	84
Western Union	873	667	320	237
Westinghouse Electric	424	232	205	197, 244
Westmoreland Coal	937	924	915	74
Westvaco	620	594	401	170
Wetterau	599	717	559	226
Weyerhaeuser	768	804	703	170, 199
Wheeling-Pitts Steel	960	925	341	154
Whirlpool	307	365	287	204
White Consolidated	679	780	274	204
Whittaker	208	35	261	213, 244
Wickes Cos	993	925	967	231
WICOR	772	763	854	78
Willamette Inds	767	811	767	170, 199
Williams Cos	797	789	513	173
H J Wilson	658	670	617	231
Wilson Foods	970	925	**	206
Winn-Dixie Stores	183	405	490	228
Wisconsin Elec Power	547	490	626	90
Wisconsin Pwr & Lt	462	493	663	90
Wisconsin Public Svc	503	516	589	90
Witco Chemical	405	477	266	173
Wometco Enterprises	400	389	52	211, 240
F W Woolworth	893	884	451	231
Worthington Inds	50	125	418	154
Wm Wrigley Jr	450	642	643	208
Wyman-Gordon	193	238	245	144
Xerox	435	577	921	183
Yellow Freight System	763	845	330	104
Zale	773	638	416	231
Zapata	297	87	177	84
Zayre	552	90	10	231
Zenith Radio	897	856	276	204
Zurn Industries	339	248	420	194

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

The industry continues in the throes of horizontal integration and consolidation. But if no upward spike in interest rates occurs, 1984 could be a very good year.



Financial services

By Thomas O'Donnell

COMPANIES ARE SO BUSY entering and leaving the financial services industry that it's getting hard to keep track of the players.

Some who have already jumped in are manufacturers like Control Data and National Steel. They usually hope to smooth out cyclical earnings through financial subsidiaries that make money when the basic businesses are flat or down. Others, like Sears, Roebuck and American Express, are going all out to turn themselves into financial supermarkets.

One that is getting out wants to stick to its basic business: RCA is selling almost all its C.I.T. Financial Corp. to Manufacturers Hanover Trust for $1.5 billion. Other departures have been prompted by too-aggressive tactics or competition from giant competitors. Falling into the too-aggressive category, to put it politely, is Baldwin-United, which filed under Chapter 11 in late 1983 amid disclosures of misleading accounting practices and shell-game shenanigans first made public in FORBES *(Dec. 20, 1982)*. Increased competition did in Walter E. Heller International *(see box p. 56)*, which decided in September to liquidate itself and distribute the proceeds among shareholders.

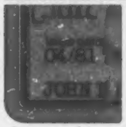
Clearly, it now takes significant size to compete effectively in financial services. The deregulation of the late 1970s, opening the way for any company other than a commercial bank to play the game, has rapidly transformed the scale and sophistication needed to do well in what only yesterday had been a cottage industry. Life was simpler when the industry still called itself consumer finance. Its customers generally could not get financing elsewhere and therefore were willing to borrow money at rates that sometimes approached 30%. As long as defaults were kept under control, bottom lines were as fat as the spread between what the companies paid for money and what they charged for it.

Financial services

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Student Loan Marketing	1	34.7%	43.4%	57.6	8	8.3%††	6.2%	6.8%	1	64.6%‡‡	1	66.9%‡‡
Marsh & McLennan Cos	2	27.6	26.2	0.2	1	27.0	23.4	12.8	7	17.4	6	12.6
Alexander & Alexander	3	22.6	def	0.6	2	25.0	0.5	def	4	21.5	7	4.0
American Express	4	20.7	21.6	0.6	3	17.3	15.9	7.3	6	18.3	3	14.6
Alleghany	5	16.1	13.0	0.0	4	13.2	10.9	4.1	3	40.9	4	14.2
Transamerica	6	15.6	12.5	1.3	5	9.9	7.3	4.6	11	8.9	5	13.5
Avco	7	11.8	7.1	2.3	11	6.5	6.3	2.7	10	10.1	10	–0.6
Household Intl	8	11.8	13.5	2.1	10	6.8	7.3	2.5	8	14.1	9	0.9
Control Data	9	10.5	8.8	2.0	9	6.9	6.3	3.5	9	13.4	2	23.7
RCA	10	10.1	8.4	0.8	7	9.0	7.8	2.5	12	8.2	11	–2.2
Sears, Roebuck	11	9.9	13.3	0.6	6	9.2	10.9	3.5	13	6.9	8	1.8
Walter E Heller Intl	12	6.4	def	2.0	13	6.1	3.5	**		**	12	–9.3
Beneficial Corp	13	4.1	9.1	4.0	15	5.1	5.9	3.8	14	5.8	13	–19.2
Fedl Natl Mortgage	14	def	5.1	50.6	14	5.3	5.5	0.7	5	18.4	14	P–D
Baldwin-United	15	def	def	1.7	12	6.4	def	def	2	58.8	14	P–D
Industry medians		11.8	9.1	1.7		8.3	6.3	3.5		15.8		1.8
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average. ‡‡Three-year growth. P-D: profit to deficit. def: deficit. **Not available; not ranked.



Today's financial services companies are still in that game. Indeed some, having been burned by attempts at diversification, are sticking closer to home. Beneficial Corp. still sells insurance and auto parts as well, but in 1982 it got rid of Spiegel, Inc., its lackluster mail order subsidiary. In 1983 it moved deeper into financial service businesses by acquiring the $11 million credit card portfolio of a Beverly Hills bank and the $13 million portfolio of a Reno bank. It also formed Beneficial National Mortgage Corp. to strengthen its presence in the first mortgage business. Similarly, Household International, the parent of Household Finance, today runs retail chains like Vons supermarkets, Ben Franklin variety stores and American Furniture, in addition to manufacturing subsidiaries and an auto leasing company. But it wants to enhance financial services of all types. So in early 1983 the Prospect Heights, Ill.-based company backed out of a brief flirtation with air travel, by selling its Wien Air Alaska unit. Household is considering converting many of its 1,150 offices in 46 states into a national banking network when interstate banking is allowed by law. To test the idea, Household plans in early 1984 to convert a half-dozen HFC offices in southern California into consumer banks.

The $9 billion (assets) Student Loan Marketing Association, a newcomer to the FORBES rankings, and leading all the rest in return on equity, is also expanding its financial services, although it plans to stick mostly to the education credit market. In September Sallie Mae announced its first public stock offering and two months later announced plans to buy the Providence Savings & Loan Association in Virginia. "In this business our size ranks us as a boutique," says President Edward Fox. "We need time to grow, and this was a logical step."

Still another company that became more deeply involved with financial services in 1983 was Alleghany Corp., the old-line holding company. In 1983 Alleghany's Investors Diversified Services bought Gray Siefert & Co., an investment firm with $150 million under management. But IDS, the giant provider of mutual funds and insurance policies, with a powerful sales force now numbering 4,500, most of them in the field, was then sold to American Express. It was another instance of the increasing consolidation of the industry as two companies with obviously complementary distribution systems and product lines joined forces. The deal should be consummated early this year.

No one has assembled a more complete financial supermarket than American Express. Having digested its 1981 acquisition of Shearson and its 260 branches, it also acquired through Shearson two small brokerage firms in 1983: San Francisco-based Davis Skaggs & Co. and Omaha-based Childs, Heider. "Our objective is to provide the widest variety of financial services available from any single source," says Chairman James Robinson III.

Amex' closest rival is Sears, which in addition to being a financial supermarket is, of course, the nation's largest retailer. But Sears has no reason to concentrate solely on financial services. By the third quarter of 1983 its financial services earnings were up around 25%, but retail earnings were up much more, over 150%.

Add to all this activity the diversification of conglomerates such as Transamerica, and it's obvious that the financial services free-for-all, heated as it has been up to now, is hardly over. The competition has already added to the drop in the commercial banks' share of financial assets, from over 60% in the 1940s to less than 40% today.

As for insurance brokerage firms, some moved to strengthen themselves by making acquisitions and pruning costly units. Marsh & McLennan Cos. has been able to maintain its league-leading profitability rankings and also dump its underwriting activity, including English & American Insurance Co., the American Overseas Group and a 75% stake in Crusader Insurance—businesses with a combined premium volume of over $200 million.

In contrast, luckless Alexander & Alexander was forced to cut its dividend by 48% in early 1983, following a $40 million writedown and $26 million loss resulting from its purchase of the Alexander Howden Group. Financial irregularities were found at the large British insurance broker, which was purchased in 1982.

One insurance-oriented company that should do better in 1984 is Avco. The insurance operation may benefit from a decline in interest rates, while its extensive aerospace operations should benefit from its booming defense work.

The companies likely to benefit most from falling rates, of course, are those that derive most or all of their earnings from financial services. Included in this category are companies such as Sallie Mae or the much larger Federal National Mortgage Association. The $75 billion (assets) Fannie Mae got back into the black in 1983 following two tough years of red ink. Now that Fannie Mae, the nation's largest mortgage lender, has some breathing room, the company is acquiring adjustable rate mortgages and lengthening the maturity of its debt.

But, of course, that's the trick in this business: how best to protect yourself from rises in interest rates and declines in consumer spending. Recently it has been a boom-or-bust business. As for this election year, because interest rates are unlikely to leap and households are likely to continue to spend, 1984 could turn out to be one of the best years ever. ■

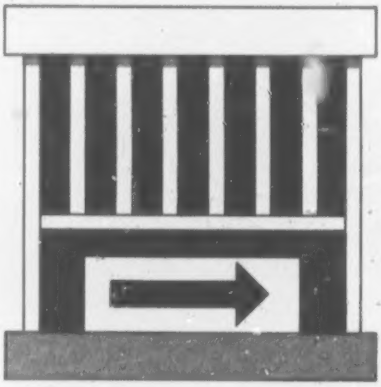
Bye, bye, Walter

There's not much mystery about why Walter E. Heller International met a slow death in 1983. The Chicago-based, highly diversified financial services company just wasn't as good at raising money as the giant banks and near-banks with whom it was increasingly competing.

Interest rate volatility and the inability of its mostly small corporate clientele to repay debts during the downturn squeezed earnings badly. In the first six months earnings fell to $4.4 million on revenues of $120.7 million, vs. $16.3 million on revenues of $150.3 million in 1982. Heller was forced initially into partial liquidation. Early in the year the company agreed to sell its two factoring subsidiaries, Walter E. Heller & Co. and Walter E. Heller Overseas Corp., to The Fuji Bank, Ltd. for $425 million. Late in the year it agreed to sell its third major unit, American National Corp., to First Chicago Corp. for $275 million.

With everybody from can companies to Xerox crowding into financial services, Heller's demise may be the harbinger of more to come. But nobody seems to notice. The lemmings press on.—T.O.

Bank bashing could be in favor in Washington and in the bustings. After all, somebody has to be the scapegoat for high interest rates.



Banks

By Thomas O'Donnell

NINETEEN-EIGHTY-FOUR is an election year, and bank bashing makes for good politics. You can make them take the rap for high interest rates, thus diverting the blame from Congress, whose refusal to cut spending is the real villain. You can tar them for those shaky foreign and domestic loans, too. Of the two issues, the second certainly has a fair validity.

In lending far too much to foreign nations and to energy-related borrowers, the banks ignored a couple of basics. Basic number one: Foreign governments can and do default. Basic number two: Just because oil prices have risen for a long time doesn't mean they will rise forever.

In mid-1982 falling oil prices led to the collapse of the Penn Square Bank of Oklahoma City. Since then other banks have posted Alaska-size losses on energy loans. In the third quarter Seattle's Seafirst reported staggering

Banks

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
New York banks												
Republic New York	1	22.8%	18.6%	0.6	1	15.6%	13.6%	8.0%	1	41.6%	1	20.7%
Bankers Trust NY	2	17.6	15.8	0.3	2	14.2	13.2	6.1	9	19.4	2	20.1
J P Morgan	3	15.5	16.2	0.3	3	13.9	14.1	7.6	4	22.9	7	11.2
Citicorp	4	15.5	17.1	2.2	9	10.1	9.1	5.1	5	22.9	8	9.9
Irving Bank	5	14.7	12.3	0.5	5	11.6	9.6	4.8	6	20.4	5	12.8
Bank of New York	6	14.7	16.2	0.2	4	13.5	15.2	6.3	2	27.4	9	9.8
Chemical New York	7	14.6	13.9	0.3	7	11.5	11.9	5.5	7	19.8	6	11.7
Manufacturers Hanover	8	14.5	14.0	0.7	6	11.5	9.8	5.0	3	24.4	10	8.4
Chase Manhattan	9	14.2	13.2	0.4	8	11.0	10.8	4.9	8	19.6	4	15.3
Marine Midland Banks	10	10.0	10.7	0.7	10	8.3	8.4	4.7	10	18.2	3	17.8
Medians		14.7	14.6	0.5		11.6	11.4	5.3		21.7		12.3
Regional banks												
Allied Bancshares	1	26.3%	25.3%	0.1	1	23.9%	24.1%	13.1%	2	40.2%	5	22.8%
Trust Co of Georgia	2	22.7	24.0	0.2	3	19.3	21.6	12.5	32	20.0	3	30.4
Midlantic Banks	3	21.2	21.4	0.2	9	15.2	16.3	9.4	19	22.5	4	23.5
Texas Commerce Bshs	4	21.2	20.1	0.1	2	19.8	18.6	10.7	3	30.8	11	19.5
Mercantile Texas	5	20.2	19.1	0.3	5	16.3	15.6	9.8	1	40.5	20	16.5
State Street Boston	6	19.3	17.4	0.3	12	14.4	14.4	8.0	40	19.0	2	34.9
Banc One	7	18.2	18.3	0.2	4	16.9	16.7	10.6	10	26.3	26	13.4
Bank of New England	8	17.9	16.0	0.2	16	13.6	12.9	6.2	4	30.4	18	16.7
Fleet Financial	9	17.6	18.1	1.3	36	11.6	11.3	8.8	49	17.5	9	19.9
RepublicBank	10	17.4	16.8	0.3	10	15.0	13.6	8.6	6	28.6	28	12.4
Barnett Banks Fla	11	17.0	18.8	0.3	13	14.4	16.7	8.3	11	24.6	6	21.1
Security Pacific	12	16.9	16.3	0.9	18	13.4	11.7	6.1	18	22.7	21	16.2
First Atlanta	13	16.9	19.0	0.3	19	13.2	15.1	9.1	54	15.1	8	20.7
United Virginia Bshs	14	16.7	17.6	0.3	30	12.1	14.0	9.3	53	15.6	15	17.5
First Union	15	16.7	19.1	0.3	20	13.2	16.6	8.6	21	22.2	12	19.3

Note: Explanation of Yardsticks calculations on page 38 energy-related losses, totaling $410.7 million, that drove the company into the arms of Bank of America. In August First National Bank of Midland, Tex. announced a $109 million loss and said nearly 25% of its loans, some $314 million, were nonperforming. That led to a run on the bank, which was kept alive only by an emergency $100 million loan extended by the Federal Deposit Insurance Corp. First National is now in receivership.

In October Dallas-based InterFirst, the state's largest bank holding company, reported a $194 million third-quarter loss. But the losses were not limited to the Southwest and Far West: Other major losers in the energy game were Chase Manhattan and

Banks

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
PNC Financial	16	16.6%	16.8%	0.1	8	15.3%	15.1%	9.3%	12	24.5%‡	23	15.0%‡
First City Bancorp	17	16.5	9.9	0.1	7	16.0	9.6	5.5	5	29.9	27	12.9
First Security	18	16.5	15.4	0.6	32	12.0	11.2	9.7	48	17.8	38	10.0
Valley National	19	16.4	11.9	0.0	6	16.2	11.9	6.1	28	21.1	24	14.1
NCNB	20	16.0	16.8	0.5	24	12.7	13.4	7.6	17	22.8	19	16.7
CBT	21	15.9	15.2	0.3	22	12.9	11.6	7.1	41	18.9	17	16.9
Citizens & Sthrn Ga	22	15.7	16.7	0.4	14	14.4	14.1	8.4	56	13.8	1	36.9
U S Bancorp	23	15.5	10.9	0.5	33	11.9	8.8	7.6	46	18.1	37	10.1
Mercantile Bancorp	24	15.5	13.1	0.3	27	12.3	11.0	7.5	39	19.0	36	10.4
Bank of Boston	25	15.4	15.7	0.5	35	11.6	12.9	5.4	16	23.3	16	17.5
First Interstate Bancp	26	15.4	12.7	0.6	25	12.6	10.5	5.5	34	19.8	25	13.8
Southwest Bancshares	27	15.2	11.6	0.3	15	14.1	10.5	6.4	7	28.5	32	11.6
Texas American Bshs	28	15.2	12.9	0.5	17	13.5	11.2	7.3	9	27.1	33	11.5
First Natl State Bcp	29	15.1	16.6	0.2	23	12.8	15.2	8.9	37	19.3	30	12.2
Wachovia	30	14.8	16.9	0.0	11	14.6	17.1	9.7	38	19.1	29	12.2
Southeast Banking	31	14.6	12.8	0.4	39	11.3	10.8	6.7	29	20.8	22	16.2
InterFirst	32	14.5	def	0.5	26	12.4	def	def	8	28.1	42	6.9
First Bank System	33	14.4	13.9	0.5	31	12.1	11.4	6.8	23	21.6	40	9.8
Sun Banks	34	14.2	14.6	0.2	21	12.9	12.9	7.6	14	23.9	10	19.8
Wells Fargo	35	14.1	12.5	1.2	43	11.0	9.5	4.9	30	20.8	39	10.0
Corestates Financial	36	14.0	16.5	0.3	36	11.6	15.7	9.3	55	14.4	35	11.3
Maryland National	37	14.0	12.6	0.5	34	11.8	10.4	7.4	47	18.0	34	11.4
Rainier Bancorp	38	13.6	12.1	0.2	29	12.2	10.8	6.4	31	20.3	41	8.6
BankAmerica	39	13.4	7.7	0.5	40	11.3	7.7	2.8	36	19.5	47	5.3
First Wisconsin	40	13.3	12.8	0.3	42	11.0	11.5	6.3	57	13.4	13	18.8
Mellon National	41	13.2	13.0	0.5	38	11.4	12.1	6.8	25	21.4	31	12.2
Norwest	42	12.9	10.4	1.1	51	10.2	6.9	4.9	20	22.4	43	6.7
National City	43	12.8	11.9	0.2	27	12.3	10.4	7.1	22	22.1	54	3.7
Fidelcor	44	12.5	21.0	0.3	48	10.6	17.4	9.4	60	9.9	14	18.7
Society	45	12.3	12.4	0.3	41	11.1	10.7	7.3	24	21.6	49	5.1
Continental Illinois	46	12.1	6.8	0.7	49	10.6	6.5	2.6	13	24.2	51	4.0
NBD Bancorp	47	11.6	10.7	0.2	47	10.7	10.0	6.9	51	17.2	45	6.3
Crocker National	48	11.6	5.3	0.2	52	9.3	5.4	2.5	26	21.3	46	6.0
Shawmut	49	11.4	10.6	0.3	44	10.8	9.9	4.9	33	19.9	7	21.1
Centerre Bancorp	50	11.3	7.3	0.3	50	10.5	6.5	4.1	27	21.2	50	4.9
Comerica	51	11.2	10.8	0.1	45	10.8	11.1	5.9	34	19.8	52	3.8
California First Bnk	52	10.8	8.1	0.1	56	8.7	8.0	4.0	15	23.4	53	3.7
AmeriTrust	53	10.8	9.6	0.0	46	10.8	9.6	10.1	58	13.2	48	5.2
Michigan National	54	10.2	8.2	0.3	57	8.7	7.8	3.7	50	17.3	59	0.2
Manufacturers National	55	10.1	12.5	0.2	53	9.3	11.6	6.3	45	18.2	56	0.9
Northern Trust	56	10.0	6.4	0.1	54	9.2	6.2	3.1	42	18.8	55	3.6
First Chicago	57	9.4	11.6	0.5	58	8.6	9.9	4.7	44	18.6	58	0.5
Harris Bankcorp	58	9.3	8.7	0.1	55	8.8	8.2	4.2	43	18.7	57	0.7
BanCal Tri-State	59	9.2	13.7	0.3	59	7.7	11.8	6.2	59	12.9	44	6.4
BancOhio	60	6.9	4.8	0.1	60	6.8	5.2	2.9	52	16.6	60	–3.4
First Pennsylvania	61	def	def	3.6	61	def	2.7	def	61	3.5	61	P–D
Medians		14.6	12.9	0.3		12.1	11.3	6.9		20.3		12.2
Industry medians		14.7	13.2	0.3		12.0	11.3	6.7		20.4		12.2
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. def: deficit.

Continental Illinois.

Further energy-related losses will occur in 1984, but the worst may be over. By contrast, there's still great concern about loans to the developing countries. These huge liabilities are more than half again as large as the total capitalization of the U.S. banking system and more than twice the capital of the nine largest U.S. banks.

This is causing some powerful critics to say that banking has become too important a matter to leave to bankers. The pickle heir, Senator John Heinz (R–Pa.), seems to think the politicians should have more say. He has introduced a bill to end the blurring of distinctions between banks, insurance companies and brokerage firms. He also is working on a bill that would put a moratorium on mergers between banks and nonbanks. How these would make for fewer problem loans is not clear, probably not even to the senator himself. The fact is that some banks do better sticking strictly to banking while others thrive in a variety of businesses. All the laws in the world won't save dumb bankers from dumb mistakes.

"We think the best business for us is basic banking, now and in the future," says John Medlin Jr., president and CEO of conservative Wachovia, representing the straight-line banking point of view. But Security Pacific Chairman Richard Flamson III takes an opposite point of view: "Our strong profit growth reflects our balanced, broadly based diversification of financial services," he says.

Senator Heinz ought to understand that either approach, if managed well, can bring success. According to the Forbes Yardsticks, Security Pacific's return on equity over the last five years has averaged 16.9%, slightly ahead of Wachovia's 14.8%. Yet Wachovia's return on total capital over the same period has been 14.6%, compared with an almost as good 13.4% at Security Pacific.

But Heinz is not alone in his desire to stop, or at least slow down, banking deregulation and subject the banks to stricter control. An Administration task force seeking ways to streamline overlapping bank regulatory agencies is making little headway. Although the current banking crisis is providing an opening to those who dislike the idea of free enterprise being really free, the trend toward deregulation will not be permanently reversed. "These attempts to reverse the trend are just a wiggle, a twist in the trail," says Edward Crutchfield Jr., president of North Carolina's First Union.

But there is no getting away from the fact that bankers have made some rotten loans and that in many cases they should have known better. As a means of making them more careful in the future, the Federal Reserve, the Federal Deposit Insurance Corp. and the Comptroller of the Currency will be establishing stricter guidelines as to when reserves must be set aside for international loans that are restructured or nonperforming. In other words, they don't want banks sweeping mistakes under the rug and hoping for the best. At the moment the individual banks have wide latitude in deciding when a loan is nonperforming. As a result, there are big variations. Some banks classify loans as nonperforming when they are in arrears for 30 days. More charitable or more hard-pressed institutions give their clients, and themselves, the full 90-day grace period allowed by law.

Banks also determine how much to set aside as reserves. Conservative banks often set aside more than their aggressive counterparts. At J.P. Morgan, for example, reserves are 1.39% of total loans. At Citicorp, by contrast, the figure is only 0.83%.

Curiously, the present problems are speeding, not slowing, the rash of mergers in banking. Why? Because bigger banks, presumably, are stronger banks. "In 1984 interstate banking will take a giant step toward reality," predicts CoreStates Financial Corp Chairman G. Morris Dorrance.

Indeed, regional banking zones in New England, the Pacific Northwest, the midatlantic, the Southeast and the Midwest may soon become a reality. A bill recently introduced by Jake Garn (R–Utah), chairman of the Senate Committee on Banking, Housing & Urban Affairs, would prohibit the 25 largest banks from merging with the largest insurance companies, securities firms, real estate companies and other financial organizations. On the other hand, it would go counter to Senator Heinz' straitjacket bill and allow banks to engage in a wide range of nonbanking financial activities. So at the moment the picture is mixed, although the long-term trend is clear: deregulation of the banking system.

None of this political back-and-forth had much effect on bank earnings last year. In early 1983 earnings at many big banks were up because margins widened as interest rates fell. Banks were also flush with funds pulled in by the new deregulated money market accounts. But as the year progressed, corporate cash flow picked up, reducing the need for costly bank borrowing. So earnings at the big commercial banks took a tumble late in the third quarter and posted a modest recovery in the fourth.

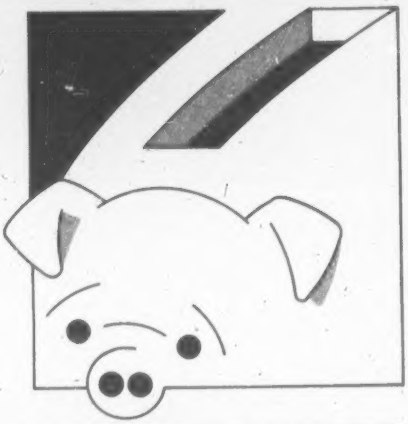
Earnings at many regional banks, by contrast, held up much better through the year-end. The outlook for regional and small banks in 1984 is even brighter because a recovery in capital spending and continued heavy consumer spending are likely to push up domestic loan volume. ■

What if the sky falls?

The numbers are enough to put the fear of God in you: Brazil owes U.S. banks some $22 billion, out of its $90 billion in total foreign debt. Argentina owes U.S. banks $8.6 billion, out of its $40 billion borrowed overseas. Data Resources, Inc. predicts serious results for the U.S. were both nations to stop making payments for a year to a year and a half: a loss of $30.2 billion from GNP and nearly 500,000 jobs, an increase of $10.2 billion in the budget deficit and an increase of 0.74% in the federal funds rate.

The problem is serious, but unlikely to come to that. In international banking the golden rule is: The bigger the problem, the less likely it will occur. And the bigger the culprit, the less likely he will be punished. That means a big bank won't go bust. It might experience big losses, however. The Fed won't do much about those, but it will find ways to keep the banks solvent. How? Bailing the banks out at discount on the bad loans would be one way. That would play hell with bank earnings but not with the economy. "Sophisticated investors are worried about earnings streams. Nobody is very worried about a big bust," says A.G. Becker Paribas analyst George Salem. A cynic might say that small lenders and small businessmen are punished for their mistakes but that the big ones get away with it. The cynics would be correct in this case.—T.O.

Thanks to Congress, thrifts are loaded with exotic new powers. So what are they doing? Writing mortgages, and loving it.



The thrifts

By Michael Cieply

REMEMBER WHEN THRIFTS were restricted by law to the mortgage business and complained bitterly of being forced to borrow short and lend long? So, in October 1982, they got their way. Congress, under the auspices of the Garn-St Germain deregulatory act, freed S&Ls to invest in such racier pursuits as equipment leasing and commercial loans. Armed to the teeth with new lending authority, S&Ls enter the year packing about $670 billion in largely deregulated deposits and not less than $2 billion in fresh stockholders' equity. To put things in perspective, that is three times the total amount of equity the industry raised between 1975 and 1982.

So, are the thrifts breathing fire? Do they stand poised to lay waste to the financial services landscape? On the contrary, most S&L executives are now purring sweetly about the rediscovered virtues of home mortgage lending.

Over 75% of thrift assets and a significant 78% of new investment remain in mortgage-related activity. S&L mortgage commitments rose more than 120%, to a record $120 billion, in 1983. All this bustle sent thrifts into the black, with $1.1 billion in first-half profits, for the first time since 1980.

That concentration on mortgages represents choice, not necessity. One indication is that Great Western, long an industry leader, recently dismantled its newly staffed commercial credit department without bothering to make a single loan. "We plan to remain housing specialists," proclaims GW's Chairman James Montgomery. The $12.5 billion (1983 deposits) Los Angeles-based thrift could post profits as high as a record $97 million in 1984 by sticking close to the mortgage business.

Even an activist like First Nationwide Financial Corp. Chairman Anthony Frank now claims the old ways are best: "Home lending has got to be the most sensational business there ever was," says Frank, whose San Francisco-based S&L is 82% owned by National Intergroup, Inc., formerly known as National Steel. "We make safe loans, they're secured, and we deal with individuals. We're wonderful institutions."

What's going on, you ask? For years the thrifts complain about being tied down to mortgage lending. Then the

The thrifts

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Fin Corp of America	1	42.8%	82.0%	0.9	1	25.3%	52.7%	9.8%	1	58.3%	1	61.2%
Golden West Finl	2	14.6	48.3	0.3	2	12.7	39.6	8.3	3	31.7	3	0.6
City Federal S & L	3	9.5	21.7	0.0	3	9.6	21.2	5.3	2	38.8‡	2	11.5‡
H F Ahmanson	4	4.2	12.6	0.2	4	4.0	11.6	4.6	9	17.9	4	–16.7
Gt Western Financial	5	2.8	5.6	0.6	5	3.9	6.1	2.7	8	19.1	5	–23.0
Gibraltar Financial	6	def	21.0	0.3	6	1.0	18.9	4.6	6	21.4	8	P–D
Imperial Corp of Am		**	def	0.8		**	def	def	10	13.4‡‡	8	P–D‡‡
Calif Federal S&L		**	**	**		**	**	6.2	5	26.0‡‡	6	–24.9‡‡
Glendale Federal S&L		**	**	**		**	**	4.3	4	26.8‡‡	7	–29.1‡‡
Home Federal S&L-Cal		**	**	**		**	**	2.8	7	20.7‡‡	8	P–D‡‡
Industry medians		6.9	21.0	0.3		6.8	18.9	4.6		23.7		–24.0
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. ‡‡Three-year growth. P–D: profit to deficit. def: deficit. **Not available; not ranked.

minute they get the right to branch out of it, they start singing the praises of mortgage lending again. Well, it's not as perverse as it might seem. What's happened is that in the interim the economics of mortgage lending have improved dramatically. Falling inflation reduced pending losses on old mortgages. Lower interest rates boosted demand sharply for new loans. Meanwhile, bloated home equity from the 1970s is finally turning liquid as the housing market improves on lower interest rates.

Look at it from the thrifts' point of view. Suppose, to be mildly optimistic, that interest rates drop a notch—say, an entirely possible 150 basis points to 12%. Say rates manage to stick at that level at least through the election. Analysts figure that could cause mortgage demand to jump another 50% this year, perhaps doubling profits for the bigger, well-managed companies in 1984.

But are thrifts merely drinking of the same poison that almost killed them in the last downturn? Not if you believe the industry mavens. "You have to understand that the economics of mortgage lending have changed radically in the last year," explains Gibraltar Financial Corp. Vice President of Corporate Development William Barger. "The AML [adjustable mortgage loan] has finally arrived."

Adjustable loans, typically guaranteeing about a 2-point spread over cost of funds, now account for a heartening 60% of new mortgage commitments by S&Ls, up from 28% as recently as July. "We've found the bells and whistles to make it attractive," says Dennis Jacobe of the U.S. League of Savings Institutions. Maybe the loudest bell is the fact that high fixed-rate interest—about 13% through most of the summer—compares unfavorably at the moment with adjustables, which go for as little as 10%.

A big player like California-based H.F. Ahmanson's Home Savings of America is pushing hard to convert its old fixed-rate portfolio to adjustables at the breakneck pace of 2.6% a month. Ahmanson hopes to have an impressive 50% of its existing loans in adjustables by next year. Great Western figures it should have 60% of its portfolio in variable rates before the end of 1984.

But not everybody has taken the

The hot money

One little-noticed thrift statistic has FHLBB Chairman Edwin Gray doing a slow burn. During the first six months of 1983, "brokered deposits" at S&Ls shot up 75%, to about $16 billion, or 3% of total deposits. That was enough to send Gray marching before Congress with a sharp complaint about "back door entry" by the cash management firms to the federal deposit insurance system.

Brokered deposits are big lumps of highly liquid money placed in banks or S&Ls by third-party intermediaries, including money funds. Handling that kind of wholesale money is hardly new for the thrifts. But deregulation allowed the depositors to collect a negotiated interest rate, and still enjoy federal deposit insurance, simply by breaking those deposits into $100,000 increments. Thus is your friendly money fund salesman able to promise that your fund shares are as safe as your S&L deposits.

FDIC Chairman William Isaac (left) *and FHLBB Chairman Edwin Gray*
A warning shot for the money brokers.

Example: Merrill Lynch has a tie-up with 12 S&Ls, which agree to take between $10 million and $1 billion each in brokered money. In this way Merrill can shoehorn as much as $1.2 million per customer into insured accounts of $100,000 or less, one insured account for each S&L in the network. Naturally, ML takes full advantage of its muscle to get the highest possible rates, while keeping the names of depositors hidden from the thrifts, so S&Ls don't shop their customer base.

Some thrifts are suspicious of this hot money. "Any broker holds the institution hostage," says one S&L chief who declined to sign on with Merrill Lynch. "One day they can tell you, 'Hey, 15% of your deposits are maturing, and instead of a 1-point fee, I need 2.' Can you afford to have those deposits withdrawn?"

Gray contends that brokered money tempts S&Ls to hype their growth and take big loan risks without bothering to beef up underlying net worth. He may have a point. In 1981-82 brokered funds were a significant factor in 35 mergers of troubled S&Ls, which relied on third-party money for as much as 70% of deposits. Moreover, Gray fears that some newly chartered thrifts will attempt to operate as "sixth-floor shops," using no conventional savings, but only federally insured brokered funds.

So far, it's all legal. "But insurance is finite," Gray angrily points out. "We can't serve as guarantors for the whole financial system." Nor should they.—M.C.

adjustable pledge. Los Angeles-based Financial Corp. of America, which has posted a 58% average revenue growth and 43% average return on equity for the last five years—in part by writing lots of high-risk loans during the downturn—is still lending heavily at fixed rates. That means $22 billion (1983 assets) FCA, the nation's largest S&L since its acquisition of Mark Taper's First Charter Financial Corp. in August, will have to sell at least $8 billion worth of loans on the secondary market in 1984, or face whiplash should rates jag upward.

Happy as they are to discover that they can make money again in their basic business, the S&Ls are not ignoring their new freedom. Not surprisingly, the S&Ls that have ventured most aggressively outside the mortgage field tend to be found where the state regulatory mood is most liberal: in Florida, Texas, Ohio, Colorado and, above all, freewheeling California, which harbors 23% of the nation's thrift assets. Since January 1983 state-chartered California S&Ls can invest up to 100% of assets in just about anything, from building apartments to owning and operating hotdog stands. California S&L Commissioner Lawrence Taggart says he is reviewing 120 applications for new state S&Ls and claims that at least five big federal institutions, including $3.5 billion (1983 deposits) Gibraltar, are toying with conversion to the wide-open state charter.

Taggart can expect sharp opposition from far more conservative Edwin Gray, since last May chairman of the Federal Home Loan Bank Board. Gray's fear is that California-chartered gamblers might dump undue risk on the Federal Savings & Loan Insurance Corp., whose $7.5 billion trust fund supported 70 assisted mergers in what is recalled as "the holocaust" of 1981-82. Gray has a point. Why indeed should federal insurance intended for home mortgages be used to cover aircraft and hotel lending? Last year Gray delayed insurance coverage for some new California thrifts by pushing more conventional S&Ls to the top of the application pile. More recently, he posted FSLIC access rules so stringent that California might conceivably be forced to set up its own insurance system.

Meanwhile, Gray hints that, pending recommendations from a George Bush-chaired task force on the status of U.S. depository institutions, S&Ls straying too far from home lending could find themselves shunted to regulation by the less-accommodating Fed, and thus cut off from long-term FHLBB advances.

Such threats, however, do nothing to dampen the enthusiasm of David McDougall, administrative vice president of $1.2 billion (1983 deposits) Beverly Hills Savings & Loan, which has used its California-endowed powers to the hilt. "What we call 'activity income' [from new ventures] accounts for 25% of gross, and we hope to exceed that level this year," says McDougall. Since 1982 Beverly Hills has sold half its branch system, acquired a pension administration business and plunked over $200 million into direct real estate investment. Result: 1983 per share profits were up an estimated 27%, excluding extraordinary gains from asset sales in 1982.

If most S&Ls are prospering at the moment, McDougall knows the real test will come when tough times return. "Cycles are more frequent now and more severe than they used to be," he warns. "Trouble will come again. So this is the time to do lots of fixing."

That, in fact, is precisely what's happening. Prudent S&Ls are selling old loans, rigorously matching asset and liability maturities and, above all, chasing new capital in the equity markets. Led by the Philadelphia Saving Fund Society, which raised a record $394 million initial public offering in September, 60 mutual-form S&Ls and savings banks converted to public stock ownership in 1983. Conversions should work wonders for industry net worth, which declined 27%, to $24 billion, in the two-year debacle. But overall figures are cold comfort to the would-be converters caught napping when S&L stocks fell 35% from their May 1983 peak. One noteworthy laggard: New York's $6 billion (1983 deposits) Dime Savings Bank, the nation's ninth-largest thrift, which still anticipates a public offering.

ALWAYS
COME OUT AHEAD.

Marketing AMLs in California

"We found the bells and whistles."

A kindly nod from the market could bring Dime and as many as 100 more new conversions out of the woodwork. If so, stock-picking among thrifts will become considerably more sporting than it was in the old "three-six-three" days, when S&L officers took in money at 3%, loaned it at 6% and hit the golf course by 3 o'clock.

Some tips on wading through the thickening morass of publicly traded thrift institutions:

- Worry about talent. Deregulation leaves plenty of room for mistakes. Says McDougall of Beverly Hills: "You can't turn old, blue-suited loan officers into real estate wizards overnight." Hence, even pros such as Gibraltar are raiding the commercial banks to staff new ventures.
- New issues are expensive. Fresh conversions outperformed previously traded S&Ls in 1983, but they are increasingly pricey. Why pay an infinite multiple for a new stock like Fortune Federal of Florida, which posted losses of $2.03 per share for the last 12 months, if you can pick up Los Angeles' profitable Ahmanson at 8 times earnings?
- Beware the fixed-rate lenders. Lots of S&Ls still make fixed-rate loans, piously claiming they will have no trouble packaging those hot potatoes for immediate sales on the secondary market. "It's not always true," cautions Shearson/American Express analyst Allan Bortel. Packaging loans is a tricky business, largely dependent on tiny interest-rate fluctuations. Ham-handed players can be stuck with dead weight if interest rates suddenly pick up.

How you feel about the future of thrifts, however, fundamentally depends on how you feel about interest rates. The big question still remains: Will the rates hold until balance sheets are fixed and the old, cheap portfolios are consigned to history? That, say the experts, could take at least two more years. Ventures First Nationwide's Frank: "If the present climate lasts through 1985, then the drag is eliminated and we're a whole new industry."

If not? He shrugs reassuringly, contemplating the drive toward variable rate mortgages, and says: "Every month that goes by is one more piece of armor." ■

An economic recovery is long overdue for the insurance industry, but don't expect it to arrive before the end of the year.

Insurance

By William Baldwin

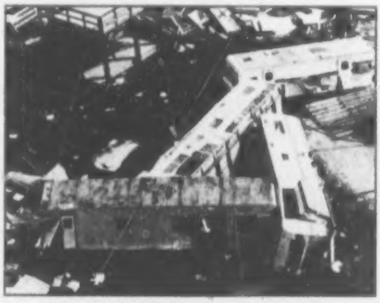
THE ECONOMIC RECOVERY has supposedly been under way for a year. Isn't it about time the insurance industry hit bottom? For the fourth time in a row, current profitability *(see p. 64, "Return on total capital" column)* has lagged the five-year average. Property/casualty stocks lagged the market for most of 1983. Earnings in the life insurance industry have been deteriorating since 1980. "There isn't much more bottom left," says Robert Haugh, president of St. Paul Cos., a diversified underwriter that specializes in medical malpractice liability and other commercial lines, where price competition has been devastating. But his mood is more prayerful than confident. According to Haugh, prices still hadn't firmed up at year-end, thus dooming the property/casualty underwriters to at least another six months of disappointing results. But maybe within a year things will start to look up. "The signs are there for improvement, in late 1984 or 1985," says Haugh.

It has been a rough year for stockholder-owned insurance companies. Aetna, the largest of them, knuckled under to an SEC complaint that it was overstating earnings by counting future tax-sheltering benefits before they were in the bag. For the industry as a whole, Hurricane Alicia cost $700 million. Baldwin-United's collapse scared away annuity buyers. Property/casualty underwriting margins (profits before investment income) are averaging a disastrous –11% and several companies aren't earning enough to cover their dividends.

For life insurers the big news is congressional action that will double their taxes *(see box, p. 66)*.

The insurance industry is supposed to be among the most stable of all employers, yet Continental Corp. and CIGNA have had to lay people off.

But there is something inherently cyclical about this business. Bad times lead to belt-tightening and rate-raising, which leads to prosperity again. And then the process repeats: High profits attract competition and make people sloppy. The competition factor is especially harsh now because so many outside corporations are hot on getting into "financial services," of which insurance is a major part.



Hurricane Alicia
As if there weren't enough losses.

The result, says John Mascotte, chief executive of Continental Corp.: "Too many dollars of capital are chasing too few dollars of risk."

Mascotte, who joined Continental in 1981 and took the top job a year ago, has felt the pain. His company reported net income of $2.62 a share for the first half of 1983. Although that seemed comfortably above the $1.30 in dividends paid in the period, most of those earnings were either capital gains or a paper item, negative income taxes. Pretax operating income was 17 cents a share, a pitiful 1% annualized return on equity.

Old-line agency underwriters like Continental suffer particularly from inefficiencies and excess capacity in their distribution systems, whereas independent retailers offer policies from several competing underwriters. For more than a decade independent agents have been losing ground to "direct" underwriters that retail through their own employees—companies like Sears, Roebuck's Allstate and the highly profitable Geico, which has been near the top of the Forbes Yardsticks for years.

Belatedly, the agency writers are changing with the times. Since Mascotte's arrival, Continental has confronted a fourth of its 8,500 agents with demands that they improve their mix of business (i.e., get their overall loss and expense ratios down) or drop out. Terminating or rehabilitating the subpar agents should save the company five points of underwriting profit margin—an amount so impressive it's a measure of how urgently it needed to be done. But it will be a few more years before such efforts show up on the bottom line, since the costs of servicing old policies will continue. Meanwhile, Mascotte has trimmed employment at Continental itself by 2,000, or 12%, through attrition, early retirement and firings.

Of course, rather than using it to chase after unprofitable business, an insurer can use some of its capital to buy in its own stock, as Geico, St. Paul, USF&G and Capital Holding, a life insurer, have done. That should someday result in better returns for the capital that remains at risk.

The industry could, in fact, stand a bit more of this capital-shrinking. State regulators would permit casualty underwriters to collect annual premiums of at least double their capital base. That compares with the current premiums-to-capital ratio of about 1.7. Capital, in short, is inefficiently used in this industry.

So long as that premium leverage stays low, casualty underwriters stay

hungry for business, which, of course, helps keep rates low. But one glance at the critical "combined ratio"—the sum of operating expenses and expected claims, expressed as a percentage of premium income—suggests that they ought to try to break this vicious circle. In 1982 the combined ratio hit 108%—a full eight points below break-even. That means the industry had costs 8% higher than revenues and stayed profitable only through the income reaped from investments. Things aren't getting much better. "The industry is now in the fifth consecutive year of a downturn," says Prudential-Bache analyst Herbert Goodfriend, "with no likelihood of improvement for 1984."

Insurance

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Life and accident												
First Executive	1	25.3%	18.2%	0.0	1	24.6%	20.5%	2.6%	1	91.8%	1	108.7%
Combined Internatl	2	19.3	16.3	0.0	2	19.4	16.1	9.3	8	15.1	9	8.5
Gulf United	3	15.3	14.1	0.6	6	12.5	10.2	8.0	4	24.0	4	13.3
Business Men's Assur	4	14.7	13.9	0.1	4	14.0	12.8	10.2	13	5.4	2	30.9
Provident Life & Acc	5	14.4	12.4	0.0	3	14.4	12.4	7.0	14	4.6	8	9.1
American Family	6	14.4	13.7	0.1	8	12.2	8.8	4.3	3	25.3	14	1.2
Capital Holding	7	14.2	14.0	0.3	5	13.7	11.8	8.0	7	18.4	6	11.0
USLIFE	8	14.0	10.8	0.5	12	11.4	9.0	8.3	9	10.8	11	7.6
Torchmark	9	12.9	13.6	0.3	7	12.3	11.8	6.9	6	18.5	7	9.3
Life Investors	10	12.4	11.1	0.1	11	11.7	10.3	4.8	2	25.6	3	14.0
Jefferson-Pilot	11	12.2	9.9	0.0	9	12.1	9.9	10.0	10	9.2	10	7.8
American Natl Ins	12	11.8	11.5	0.0	10	11.8	11.5	12.2	12	7.2	5	12.4
Washington National	13	10.8	7.3	0.1	13	10.0	7.1	2.9	11	7.4	12	6.0
Equitable of Iowa	14	9.1	8.9	0.1	14	8.4	8.8	4.9	5	18.6	13	5.3
Medians		**14.1**	**13.0**	**0.1**		**12.3**	**10.9**	**7.5**		**16.8**		**9.2**
Fire and casualty												
GEICO	1	38.6%	24.9%	0.4	2	22.2%	20.4%	10.7%	12	5.0%		D–P
Mission Insurance	2	26.6	12.4	0.1	1	23.5	11.7	6.4	1	23.0	1	26.1%
General Re	3	21.8	18.7	0.0	3	21.3	18.4	13.4	4	15.9	3	22.3
American Express	4	20.7	21.6	0.6	5	17.3	15.9	7.3	3	18.3	6	14.6
Ohio Casualty	5	18.9	12.3	0.0	4	18.6	12.3	6.7	8	12.2	7	13.5
Hanover Insurance	6	17.6	13.2	0.0	6	17.2	13.1	6.5	7	13.0	4	19.9
USF&G	7	16.7	11.7	0.0	7	16.7	11.7	7.0	9	10.3	9	10.0
Kemper	8	16.1	9.5	0.0	8	16.5	9.6	3.3	2	20.9	7	13.5
Chubb	9	16.0	13.0	0.1	9	15.0	11.4	5.6	10	9.3	5	14.8
City Investing	10	13.0	9.7	1.2	11	9.2	8.5	2.2	5	15.3	10	9.5
Berkshire Hathaway	11	9.4	7.7	0.2	10	9.4	8.0	11.9	6	13.2	2	25.0
Continental Corp	12	9.0	1.9	0.0	12	8.5	2.0	1.1	11	7.4	11	0.4
Medians		**17.2**	**12.4**	**0.1**		**17.0**	**11.7**	**6.6**		**13.1**		**14.6**
Multiple line												
Teledyne	1	26.2%	12.0%	0.3	2	19.8%	10.4%	8.7%	15	7.9%	2	24.5%
Fremont General	2	23.1	def	0.5	4	18.3	1.5	def	1	29.6	11	10.1
Loews	3	22.5	22.2	0.5	11	12.6	14.1	5.8	9	11.9	3	21.8
American Intl Group	4	21.7	19.0	0.0	1	20.7	18.6	15.7	2	18.5	4	21.7
Old Republic Intl	5	20.1	17.6	0.3	3	19.1	15.4	14.5	5	14.8	5	16.8
Farmers Group	6	18.4	16.4	0.0	5	18.2	16.2	17.7	4	15.0	6	15.0
CNA Financial	7	18.2	14.7	0.2	12	11.7	11.6	4.8	14	8.4	1	105.3
American General	8	16.5	14.9	0.4	7	14.4	11.0	7.2	7	12.8	7	14.0
St Paul Cos	9	15.6	12.4	0.1	6	14.6	12.1	7.1	11	10.8	10	10.5
Safeco	10	15.1	13.6	0.3	10	12.8	11.7	7.5	10	11.7	8	12.4
Aetna Life & Casualty	11	14.7	9.5	0.1	8	13.8	8.8	2.8	6	13.2	12	9.1
Travelers	12	14.1	11.2	0.0	9	13.7	11.1	2.8	12	10.4	9	11.8
Lincoln National	13	11.3	10.6	0.2	14	10.3	9.4	4.0	8	12.4	13	8.6
Colonial Penn Group	14	11.1	13.3	0.0	13	11.1	13.3	3.6	3	17.7	15	–7.6
CIGNA		**	9.4	0.1		**	8.9	3.6	13	8.9‡	14	3.9‡
Medians		**17.4**	**13.3**	**0.2**		**14.1**	**11.6**	**5.8**		**12.4**		**12.4**
Industry medians		**15.5**	**12.4**	**0.1**		**13.9**	**11.6**	**6.9**		**13.0**		**12.4**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. D–P: deficit to profit. def: deficit. **Not available; not ranked.

Property/casualty has always had its cycles, roughly coincident with the economy's ups and downs, but five years is exceptionally long.

In a curious way, today's high interest rates are partly to blame. Yes, insurers are lenders, not borrowers, but that's the point. Greedy for more money to lend out, they stretch themselves to attract premium dollars. And shaft themselves in the process.

Here's how it happens: Suppose an underwriter has an opportunity to collect $100 of premium today against $120 in claims three years hence. Should it take the business? Since yields on safe Treasury securities are about 10%, yes. A mere $90 set aside now will grow to $120 in three years, enough to pay the claims. In reality, then, the insurer is garnering a $10 underwriting profit this year. The interest earned on the $90 reserve doesn't represent true profit but rather belongs in some sense to the claimholders.

Trouble is, under the archaic accounting system of the insurance profession, this piece of business would probably be booked as a loss in the first year. That is because the full $120 of future payouts would be counted as an underwriting cost. The resulting underwriting loss would be offset by investment income, of course, but much of that income would be on reserves from policies sold in other years. In short, there is a mismatch of revenues and expenses on each piece of business, making it difficult for the investor to know how profitably an insurer is operating at any given point. If all this weren't complicated enough, underwriters can further muddy the waters by reinsurance transactions, effectively accelerating the reporting of what would otherwise be, under traditional accounting, next year's income.

To go back to the hypothetical example: The underwriter might dispose of that $120 future loss by reinsuring it away at a cost, say, of $90. The reinsurer would then pick up the three years of investment income. The original underwriter would improve this year's reported profits by $30, and would report correspondingly lower profits in future years. Aetna, American Express' Fireman's Fund and CIGNA's Insurance Co. of North America are among the companies that used this controversial technique to puff up depressed earnings.

Complicated? Of course. But it boils down to a situation where few companies are making real money. "Smart people can sit down and say, 'I can write medical malpractice at 137.5% [combined ratio] and make a lot of money because the average payout is going to be over an eight-year period,' " says Frank Munson, president of General Re. "The big mistake was that in trying to write it at 137.5% they ended up writing it at 180%." For 1982 Aetna reported a 160.6% combined ratio on its general liability lines, the ones with the runaway jury awards and other unpredictables. No wonder the company was tempted to shuffle its loss reserves a bit.

The solution, in Munson's view, would be to go back to the good old days of sound underwriting practices, meaning: Make money on the underwriting and look upon investment income as icing on the cake. But the good old days are not around the corner. Says Munson: "The commercial insurance buyer is an infinitely more sophisticated animal than he was years ago. He wants some of that investment income somehow." The big commercial policyholder that doesn't get a bargain from the underwriter can take investment income by self-insuring, via a "captive" insurance subsidiary. Captives—most of them offshore to avoid regulation and taxes—already account for 6% of the $44 billion commercial property/casualty market. "We're seeing captives beginning to look at new areas: political risk, interest-rate exposure, warranties, life insurance on retirees," says Felix Kloman, president of Risk Planning Group, a Darien, Conn. firm that advises captives. Kloman's optimism should be underwriters' pessimism. ■

Hit me again

The bad news is that, under proposed legislation, life insurers' taxes will almost double in 1984, to $2.9 billion. The good news is that, without the legislation, taxes would go up even more.

Life insurance taxation, always one of the most complex parts of the federal tax code, has been in a state of flux for two years. In 1982 Congress scrapped the old system, enacted in 1959, because of the huge distortions it created during high inflation. A key formula in that law begins to break down when bond yields exceed 6%.

For 1982 and 1983 a stopgap tax system was enacted, intended as a transition—not so much in tax rates, as in how taxable income was computed—between the old system and what was expected for a new one. Under the 1959 act, investment income was the principal factor. Under the proposed reform, emphasis is on operating income more broadly defined.

The interim measure generated about $1.5 billion a year in federal tax collections. That gave time to the industry's two camps—the mutual, or policyholder-owned firms, and the stockholder-owned firms—to form a combined lobbying front for tax purposes. Certainly, the interim tax law gave them an incentive to do that, since it provided that without new legislation the industry's tax payments would jump to $3.3 billion in 1984.

After much feuding behind closed doors on Capitol Hill, the insurers agreed on a scheme that would leave mutuals picking up 55% of an overall $2.9 billion annual burden and the stock companies the remainder. A tax committee approved the deal in October, but Congress adjourned before acting on it.

The insurance industry also wants the new legislation because it clarifies tax rules for their customers. "It closes a great uncertainty as to whether the IRS is willing to treat universal life as life insurance," says Lauchlin McLean, a tax lawyer for Aetna Life & Casualty. Provided certain minimum levels of pure death protection are present, buyers of universal life won't lose the favorable tax treatment generally accorded life insurance, even though universal life incorporates some investment features, such as a buildup of cash values at money market rates.

If Congress gets around to enacting this tax revision—a touchy matter only because it has been packaged with some controversial tax provisions, such as curbs on tax-free fringe benefits and tax-exempt housing bonds—most insurers will breathe a sigh of relief. So will any accountants concerned about demand for their services. Although the measure is billed as a "simplification," it is over 100 pages long.—W.B.

Was 1983 the peak of the boom for the brokerage business? If so, it was surely some peak.

Brokerage

By Richard L. Stern

EVERY YEAR, not long after Thanksgiving, the nation's top brokers gather at the Boca Raton Hotel in Boca Raton, Fla. to ponder the future of their profession at the meeting of the Securities Industry Association (SIA). Few other industry groups in this country can field as many millionaires at one conclave.

Rarely have the millionaires, near-millionaires and would-be millionaires been in a cheerier mood. Despite a sharp dropoff in earnings during the second half at the big publicly held firms like Merrill Lynch, Paine Webber and E.F. Hutton, 1983 was a dream come true for most of the industry. In fact, industry earnings overall are expected to be 50% ahead of 1982's record. So the entry of over 700 banks and thrifts into discount brokerage services seemed to hurt Wall Street hardly at all.

Take the large privately held investment banking and trading firms like Goldman, Sachs; Drexel Burnham Lambert; Bear, Stearns; Morgan Stanley; or Salomon Brothers (now a subsidiary of the publicly traded Phibro). Many of them are far less dependent on trading volume than the so-called wirehouses, whose latest 12-month profitability numbers on the Yardsticks below were sullied slightly by a decline in trading volume in equities in the second half. So some of these private firms enjoyed pretax returns on equity of as much as 100% last year, incredible as that may seem. Yes, 100%. And these are firms with up to $500 million in equity capital. "That 100% is not an outrageous number at all," says Robert Linton, chairman of Drexel Burnham Lambert Inc. and 1983 chairman of the SIA. How well did privately owned DBL do? Linton won't say, except to concede that it bettered the industry average figure, which was a not-to-be-sneezed-at 32.8% in the first half of the year.

This also means that the hundreds of partners in brokerage houses—from East Coast giants like Goldman, Sachs to smaller but substantial regionals like San Francisco's Montgomery Securities—personally pulled in $1 million or more, sometimes much more, apiece. Only the entertainment business and, possibly, sports produced so many seven-figure incomes last year. Professional traders on equity, bond and commodities desks easily made upwards of $200,000 and $300,000. The chief traders? In some cases more than $1 million. Compensation for analysts was never better, ranging from $250,000 to $500,000 for the top ones.

Take Jim Chanos, for example. He is the analyst who became a Wall Street star in 1983 when he discovered Baldwin-United was a basket

Brokerage

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
E F Hutton Group	1	30.3%	31.1%	0.7	2	24.8%	22.7%	6.8%	3	34.3%	2	30.3%
First Boston	2	27.6	29.5	0.2	1	27.6	29.7	6.5	1	44.0	1	32.2
Merrill Lynch	3	22.9	26.9	0.5	3	18.5	20.3	7.1	5	29.2	3	25.7
Paine Webber	4	18.5	45.8	0.5	4	15.6	37.9	5.9	4	33.2	4	12.9
Donaldson, Lufkin	5	13.3	13.6	0.5	5	11.7	10.7	3.4	2	36.3		D–P
Industry medians		**22.9**	**29.5**	**0.5**		**18.5**	**22.7**	**6.5**		**34.3**		**28.0**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
D–P: deficit to profit; not ranked.

case. He was later lured to Atlantic Capital, the U.S. brokerage subsidiary of the German Deutsche Bank, for a rumored compensation package of half a million dollars a year. Chanos, by the way, is only 26.

Dealmakers and underwriters also did extremely well. So did the ordinary brokers, the people who deal with the public. Average compensation in 1983 was $75,000, up from $67,000 in 1982, according to Perrin Long of Lipper Analytical Services, Inc. That's just the average. Remember, they can earn anywhere from 30% to 40% of the commissions they bring in. A few top producers made multiples of $1 million. The 170 brokers in the New York retail office of Bear, Stearns, which specializes in wealthier individuals, "brought in $500,000 a man," says Bear, Stearns partner Jimmy Cayne.

Not content with huge incomes, many brokers decided to capitalize their good fortune by letting the public in on their businesses—at prices ranging from 3½ to 5½ times prepublic book value. Firms going public included RJ Financial and Quick & Reilly. If precedent holds, this could be a sign the market is near a top: Brokers have often displayed brilliant timing in going public. When Donaldson, Lufkin & Jenrette started the whole thing by going public back in 1970, right at the top of the market, many initial investors who hung on didn't break even for over a decade.

So much for the brokers' yachts. What about the customers? They fared well but not nearly as well as the brokers. The NASDAQ average, which went from 232.41 to 326.11 in

Brokers cruising off Boca Raton
Billowing profits helped fill the sails.

A money machine

Goldman, Sachs probably has more clients among The Forbes 500s (Sears, Ford, General Electric, et al.) than any other investment banker. It also is probably the biggest in the private placement business. And only Merrill Lynch, according to the surveys, has more top analysts. In institutional trading, Goldman is number one, according to those same surveys.

Goldman, moreover, has achieved this eminence with a minimum of the infighting that afflicts most Wall Street firms. And when did you last hear of a Goldman partner leaving for greener fields elsewhere? Indeed, this unusual harmony is a major reason for the firm's unparalleled success.

Goldman, Sachs defines success. It likely will have earned something between $350 million and $400 million before partner taxes for the fiscal year ending last Nov. 30. That's a 100% return on the equity with which it began the year. Revenues were over $1 billion, and, according to brokerage industry sources, that kind of performance is unbeatable even on Wall Street.

In a business notorious for its cyclicality, Goldman, Sachs just completed its ninth consecutive year of earnings records, according to John Whitehead, who, along with Cochairman John Weinberg, took over the reins in 1976 after the death of Gustave Levy. Unlike the big wirehouses, Goldman doesn't have to cope with the enormous overhead of doing business with the general public. Thus the company avoided the second-half slump in earnings.

The company has put together a mix of business that seemingly defies gravity. When equities are down, bonds and real estate may be up, for example. Last year the public's appetite for new issues (a market where Goldman has ranked first, ahead of E.F. Hutton and Merrill Lynch as an underwriter) weakened after August, but big companies kept selling equity, and Goldman, with its blue chip list of corporate clients, kept the cash register ringing. Two years ago it acquired J. Aron & Co., an international commodities dealer, reportedly for $100 million. While 1983 was not a good year for gold and silver, the foreign currency and coffee businesses were up, and J. Aron is a substantial currency trader and the largest coffee dealer in the world.

Whitehead is particularly proud that his staff, which now numbers 3,400, has grown more slowly than revenues and earnings. That's efficiency. Settled into a new 30-story office building in the center of the financial district, Goldman is setting its sights on the world. Goldman already owns a merchant bank in London, has a trading operation there and operates other offices in Zurich, Hong Kong and Tokyo. It will leave for Merrill Lynch the opportunity to reach the retail public at large around the world. Goldman plans to keep doing what it does best—making lots of money by dealing with the big boys and dealing with them both efficiently and effectively.—R.L.S.

June, had fallen off to 285.49 by December. Hambrecht & Quist's high-tech average went from 649.78 in January to 942.21 in June but was off to 739.22 by December.

As for the hot new issues—the ones your broker told you would be the next IBMs—it was the same story: According to Abrahamsen & Co. of Hoboken, N.J., which keeps track of initial public offerings of $5 million and more, Wall Street raised at least $10.7 billion last year. But of the 386 initial public offerings, 186 in late November were trading below their initial offering price.

Meanwhile, the public was also getting badly burned in Baldwin-United and Warner Communications and severely singed on such respectable issues as Apple Computer, Digital Equipment and Texas Instruments.

While Merrill Lynch suffered from declining trading volume in the third quarter, another major wirehouse bucked the trend. Shearson/American Express, one of the best run of the large houses before and after its acquisition by American Express, earned $34.4 million in the third quarter of 1983, compared with $33 million for the same period of 1982, the first quarter of the roaring bull market. Merrill, Hutton and Paine Webber all were down September over September. Why did Shearson fare better? In part because of tighter cost control, claims Peter Cohen, Shearson's 37-year-old president and chief executive officer.

What's ahead for 1984? Continued good times but accompanied by some belt tightening. George Ball, the chairman of Prudential-Bache, doubts that trading volume will go appreciably higher "because the market already has built in earnings expectations" into most of the thousands of issues that are traded. Ah, 1983. That was one for the books. ■

On the block

Two years ago commodity broker Phibro paid something like 2 times book value, or about $500 million, for Salomon Brothers. The price didn't seem to make sense, for what was Phibro buying but a lot of people who could easily pack their briefcases and move across the street. Who's laughing now? Last year alone Salomon reportedly earned back that $500 million for Phibro pretax—and a lot of former Salomon partners were moaning in their martinis for having sold out so cheaply.

Nobody was selling that cheaply last year. Brokerage firms that went public—and there were eight of them—generally got a higher price in the public markets than they would have by following Salomon Brothers' lead and selling out privately. Such relatively small firms still command higher price-to-book ratios than big public companies such as Merrill Lynch and Paine Webber. Why? Possibly because investors believe smaller firms are more likely to be takeover candidates.

You can see why investors have such hopes. When Shearson/American Express bought the West Coast-based brokerage firm of Foster & Marshall and Atlanta-based Robinson-Humphrey in 1982, it paid 3.5 times book. But not every firm is as good as those two—and not every year will be like 1983 on Wall Street.—R.L.S.

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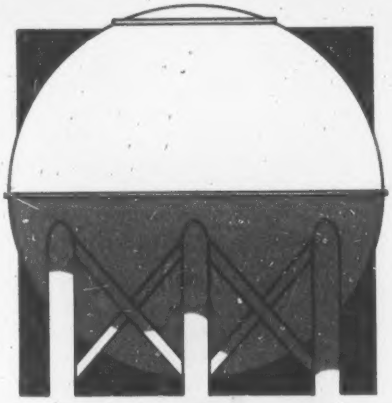


By Carol E. Curtis

IF THE ECONOMY was recovering smartly in 1983, you wouldn't know it from the oil industry. Complains Raymond Mason, president of Charter Co.: "Even if the economy keeps expanding, pressures will continue to push oil prices down."

The numbers tell the story. In the 1960s, before the Arab oil embargo, the U.S. GNP was growing at 8% annually. Energy demand rose at the same pace, with oil filling virtually all of the increased demand. But last year the demand for oil actually declined in the face of a 3.5% increase in the GNP. This year looks little better. Tor Meloe, chief economist for Texaco, believes the economy will grow about 5% in 1984; demand for petroleum will rise only 1%. An economist for another oil company isn't much more optimistic. He says energy use will rise by 4% in 1984, but half of the growth will be non-oil.

A gas-guzzling 1959 Cadillac (top) *and a new, fuel-efficient Mazda*
At 8 miles per gallon vs. 20, bigger will never be better again.

Remember those "obscene" oil company profits? Where are they now? For the international oils as a group, the Forbes Yardsticks show that return on capital averaged 7.4% over the past year—down by almost half from the industry's five-year average of 13.2%.

This is not the first time that the demand for oil has dropped, of course. In 1975, right after the embargo, it fell to less than 4% as prices rose. But people got used to higher prices, and demand recovered.

This time it's different. The 17-fold increase in prices over the last decade seems to have triggered permanent changes in oil's two most important product markets: gasoline and middle distillates.

By far the most important transformation has been in the market for gasoline. About 45% of every barrel of oil refined in the U.S. is turned into gasoline. Between 1978 and 1982 the average miles driven per car per year fell 10%—from 10,050 to 9,050. That cut gasoline consumption by 500,000 barrels a day. At the same time the auto fleet was becoming more fuel-efficient. The average new American car now gets 24.6 miles per gallon, vs. 13.2 miles per gallon in 1973.

These two factors—less driving and fuel-efficient cars—have cut U.S. daily gasoline consumption by 1 million barrels. People are beginning to drive more again: One major oil company estimates that miles driven in the U.S. in 1984 will be 4.5% higher than in 1983. On the other hand, gas-guzzlers are still being replaced by more efficient vehicles. So the decline in demand looks permanent.

Oil's second most important market, middle distillates—jet fuel, residual fuel oil and heating oil—has been hit even harder than gasoline. Conservation and fuel substitution in the

Poor relation

With oil losing its markets to other fuels, you would think that the biggest gainer would be coal. Coal is plentiful, much cheaper than oil and a ready replacement for petroleum in the huge utility market.

Only it isn't happening. "The recession and conservation have hurt everybody," says E.B. Leisenring Jr., chief executive of Westmoreland Coal. Westmoreland's troubled performance of late is a good illustration of the industry's problems.

Last year the U.S. produced 780 million tons of coal, about 50 million less than in 1982. This year the National Coal Association expects a modest increase but still well below 1982.

In the early 1980s coal won U.S. market share from oil and gas in the all-important utility market, where four-fifths of U.S. coal is sold. It won converts in heavy industry, too. Over the past five years the Forbes Yardsticks show sales growing for coal companies by a healthy average of 18.8%.

But the growth seems to have stopped. Why? Environmental extremists have hurt, as has red tape. Utilities are reluctant to buck their opposition to convert to coal. So they keep burning natural gas and oil, and the public pays.

Meanwhile, 12 new nuclear units are expected to begin operation in 1984. These plants will produce cheap, clean energy, in spite of their sky-high capital costs, and will satisfy most of the modest increment in demand expected in the near future *(see Electric Utilities, p. 90)*. Coal economist Jerry Karaganis figures that the surge of nuclear capacity will hold coal use flat. If the coal industry has anything to be thankful for, it is that antinuke propagandists have so frightened the American public that further nuclear development has almost halted. Bad news for U.S. energy independence but good news for OPEC and for coal.—**C.E.C.**

utility and industrial sectors have cut the use of middle distillates dramatically. Electric utilities simply aren't building oil-burning power plants anymore. Heavy industry, still mired in recession, has taken equally dramatic steps. In the steel industry, fuel oil use is now one-fifth what it was five years ago. In pulp and paper, the third-largest energy consumer in the country after metals and chemicals, oil use has been cut by more than 50%. Will oil consumption come back with industrial activity? Not likely. Much of the reduction is permanent reduction, caused by switching to self-generated fuel like wood-burning boilers.

The cumulative effect has been to reduce the use of residual fuel oil by over 1 million barrels a day, and that trend is continuing.

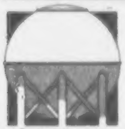
In all, oil demand has fallen by more than 3 million barrels a day be-

Energy

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
International oils												
Occidental Petroleum	1	27.3%	def	0.9	1	14.9%	3.1%	0.9%	2	21.1%	4	12.8%
Exxon	2	20.1	17.0%	0.1	2	14.5	11.8	5.1	5	13.6	3	13.4
Standard Oil Calif	3	18.4	12.2	0.2	3	14.4	9.4	5.6	7	12.4	1	14.9
Phillips Petroleum	4	18.1	10.9	0.3	4	14.0	7.7	4.1	3	19.1	6	11.3
Mobil	5	17.3	9.1	0.3	5	12.4	6.3	2.3	4	16.5	2	14.8
Texaco	6	15.4	9.0	0.2	7	11.3	7.3	3.1	6	12.5	5	12.4
E I du Pont	7	13.5	9.2	0.5	6	11.5	7.4	2.8	1	22.5	7	8.3
Gulf Oil	8	12.9	9.3	0.2	8	10.3	6.9	3.1	8	9.4	8	7.7
Medians		17.7	9.3	0.3		13.2	7.4	3.1		15.0		12.6
Other oil and gas												
Standard Oil Ohio	1	42.8%	23.0%	0.5	2	20.7%	14.5%	13.7%	7	27.5%	1	43.3%
Charter	2	35.8	3.3	0.6	1	20.9	5.3	0.4	8	27.2	6	26.1
Mitchell Energy & Dev	3	35.0	18.6	1.1	17	12.4	7.9	8.7	2	35.4	5	27.8
Texas Oil & Gas	4	33.3	31.9	0.5	3	16.1	15.2	16.1	6	27.7	3	30.2
Tosco	5	28.3	def	1.3	23	9.9	def	def	4	29.5	33	P–D
Tesoro Petroleum	6	28.1	12.9	0.2	4	16.0	10.1	1.7	14	24.0	8	23.1
Pennzoil	7	25.4	12.9	0.7	13	12.9	7.1	7.0	29	15.0	17	12.4
Dorchester Gas	8	24.6	12.7	0.9	6	14.2	7.2	1.3	1	67.2	9	20.5
Ashland Oil	9	23.0	5.7	0.5	16	12.4	5.1	1.2	31	13.5	20	11.6
Murphy Oil	10	22.3	16.3	0.2	9	13.9	11.3	5.8	24	16.9	7	23.9
Cabot	11	21.3	9.9	0.3	7	14.0	7.5	4.1	16	23.3	4	29.3
Atlantic Richfield	12	21.1	15.9	0.3	12	13.2	9.9	5.9	19	20.6	10	20.1
Louisiana Land	13	20.0	12.0	0.3	5	15.2	7.1	8.3	15	23.8	25	5.8

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.



cause of conservation. So market forces have done what neither threats nor diplomacy could do, curb the power of OPEC.

OPEC is currently producing 17.5 million barrels a day, with a capacity of 31 million. Since most OPEC member states have developed expensive spending habits, further cuts to shore up prices seem unlikely. There is so much excess capacity right now that the Iran-Iraq war has made hardly a dent. "Short of shutting down the [Persian] Gulf," says Neil Bunis, director of industry studies for Conoco, "anything less can be compensated for." A Gulf shutdown would also find the U.S. far better prepared than in the past: The strategic petroleum reserve, with all its problems, still contains 366 million barrels of oil, or 90 days' emergency supply.

The wonder is that the price of oil hasn't fallen faster. "Every bone in my body tells me the price of oil is going down," says Charter's Mason, "but I won't bet a nickel that it will." Why not? Essentially because almost everybody has a stake in keeping prices up. The oil industry because it has invested billions developing expensive deposits like those in Alaska. The industrial countries because conservation is in their long-term interest and high prices promote conservation. The U.S. because Mexico's future depends heavily on oil, and the U.S. badly needs a prosperous Mexico.

So the betting is, oil prices will hang around the present level for a while, which isn't such bad news to people who find oil. The current price of $29 isn't all that bad. The biggest gainers won't necessarily be the biggest companies—integrated giants like Exxon and Texaco. These companies get much of their oil from Saudi Arabia, and access to oil in politically uncertain Saudi Arabia has become quite a mixed blessing. Instead, firms with strong U.S. exploration and production arms and extensive U.S. oil reserves, like Standard Oil of Ohio and Superior, are looking better all the time. William Randol, international oil analyst at First Boston, explains why: "For national security and balance-of-payment reasons, there is still an infinite demand for U.S.-produced crude oil, even at $29. Every barrel that can be found will have a home."

This helps explain the excellent showings posted by U.S.-based Superior Oil. Over the latest 12 months, the Forbes Yardsticks show that Superior's net profit margin is 11.3%, vs. the industry median of 3.7%. True, its

Energy

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Standard Oil-Indiana	14	19.6%	16.0%	0.3	10	13.7%	10.9%	6.3%	25	16.6%	15	13.5%
Unocal	15	19.5	14.2	0.2	11	13.5	10.4	6.3	33	12.4	14	14.6
MAPCO	16	18.9	9.0	0.8	21	10.7	5.6	2.6	3	33.2	29	2.8
Shell Oil	17	18.7	14.8	0.4	19	12.0	9.1	7.7	27	15.7	13	15.1
Sun Company	18	18.1	10.7	0.3	14	12.6	7.2	3.6	20	19.0	19	12.2
Getty Oil	19	17.9	8.3	0.2	8	14.0	6.0	3.6	9	26.1	11	18.1
Amerada Hess	20	17.4	7.4	0.7	18	12.1	4.9	2.4	28	15.0	12	15.2
Superior Oil	21	17.0	9.0	0.4	22	10.6	4.9	11.3	5	28.5	2	33.2
Holly Corp	22	16.7	10.1	0.1	15	12.6	7.9	1.5	13	24.8	22	9.7
Pacific Resources	23	16.3	7.8	1.4	24	9.8	5.7	0.5	11	25.7	18	12.3
Tenneco	24	16.3	13.1	0.7	28	9.4	7.4	4.9	26	16.2	26	5.6
American Petrofina	25	15.9	8.3	0.3	20	10.9	6.4	2.2	30	14.9	24	8.1
Crown Central Petroleum	26	15.6	0.2	0.4	25	9.7	1.5	0.1	17	22.2	21	10.3
Kerr-McGee	27	14.0	10.4	0.4	27	9.5	6.7	4.9	32	12.7	23	8.2
Quaker State Oil	28	13.9	13.2	0.3	26	9.6	9.2	3.9	23	16.9	28	3.6
Coastal Corp	29	13.6	16.6	1.2	32	7.5	7.3	1.6	12	25.4	30	2.7
Union Pacific	30	13.4	9.4	0.5	30	8.6	5.5	4.8	18	21.6	16	13.5
Diamond Shamrock	31	12.9	7.4	0.5	29	8.8	5.7	3.2	22	18.7	31	-6.1
Allied Corp	32	11.6	9.0	0.2	31	8.2	7.4	3.7	21	18.8	27	4.4
United States Steel	33	1.1	def	1.0	34	3.8	def	def	34	10.1	32	-33.6
Marion	34	def	def	2.9	33	4.7	def	def	10	25.9	33	P-D
Medians		**18.4**	**10.3**	**0.5**		**12.3**	**7.2**	**3.7**		**21.9**		**12.4**
Coal												
North American Coal	1	15.2%	23.1%	7.3	2	6.4%	6.4%	4.8%	1	12.2%	1	10.2%
Eastern Gas & Fuel	2	12.7	7.7	0.6	1	7.7	5.2	3.3	2	11.6	2	3.9
Pittston	3	4.7	def	0.4	3	4.6	def	def	3	7.8	3	-23.4
Westmoreland Coal	4	0.4	4.5	0.3	4	2.1	5.1	1.6	5	5.1	4	-55.5
Gulf Resources & Chem	5	def	11.8	2.2	5	2.0	7.3	3.0	4	7.4	5	P-D
Medians		**4.7**	**7.7**	**0.6**		**4.6**	**5.2**	**3.0**		**7.8**		**-23.4**
Industry medians		**17.4**	**9.9**	**0.4**		**12.0**	**7.1**	**3.3**		**18.8**		**12.2**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38
P-D: profit to deficit def: deficit

return on equity trails the industry median by more than 1%. Nevertheless, at a P/E of 28, the largest independent oil and gas producer in the country is a hot number—and a rumored takeover target by, among others, T. Boone Pickens Jr. before he went after Gulf.

But while things look good for domestic producers, they look glum for the big internationals, which no longer own their own oil but must buy much of it from OPEC. The depressed state of the refining and marketing business isn't working in their favor, either. There is overcapacity in refining of between 30% and 40%—a record high. Looking at his chart of refining margins, First Boston's Randol calls it "an electrocardiogram of a very sick industry."

Because European refineries have been hit even harder than those in the U.S., integrated companies with strong overseas positions, notably Gulf and Texaco, have been hurting badly. Gulf reacted last year by announcing that it was selling its European refining and marketing operations to Kuwait Petroleum Corp.

Saddled with these problems, the international oils recently have been looking less attractive than their domestic counterparts. For the latest 12 months, the Forbes Yardsticks show that return on equity for the giant internationals has averaged just over 9%, one percentage point below the industry mean for domestic oils.

As a domestic company, Atlantic Richfield also looks good. Last year, analysts say, Arco cut gasoline prices aggressively in the all-important West Coast market because of access to Alaskan crude oil and an innovative marketing strategy. The result? Huge gains for Arco at the expense of less well positioned refiners like Tosco and Holly, who simply couldn't meet Arco's low prices at the gas pump.

While West Coast gasoline prices are firmer now, Arco's strategy is likely to continue to pay off, making it a winner in a sea of losers. With its stock selling at a P/E of 5.6, that fact appears to have gone unnoticed so far.

Shell Oil, the U.S. arm of Royal Dutch/Shell, is another domestic with good prospects. Shell has focused on efficient upgrading of vast quantities of low-grade crude oil reserves it acquired with the purchase of Belridge. With oil costly to find, you are way ahead of the game if you can take low-grade stuff and turn it into good crude rather than having to go out and find the high-grade stuff from scratch. ■

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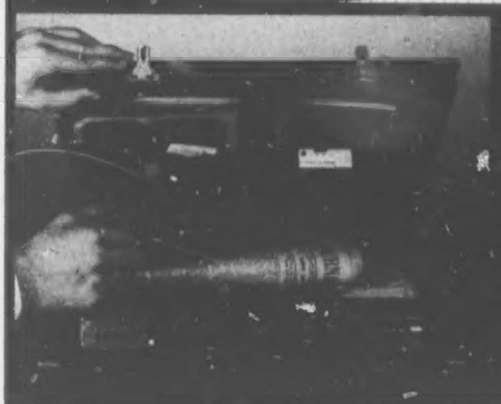

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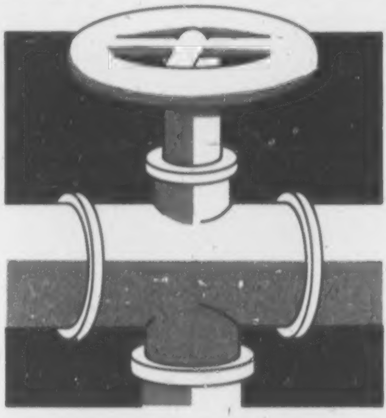
Natural gas is in oversupply, and yet gas prices keep rising. But behind all these clouds a brilliant sun is trying to break through.



Natural gas

By Toni Mack

WITH THE GAS MARKET still awash in expensive, unsalable gas—some 4 trillion cubic feet of it per year at last count, almost one-fourth of capacity—the industry is praying for fierce, lengthy winters and runaway recovery. But even if it gets its wishes, it will be a good two years before that excess is burned off. Here, too, rising prices have led to conservation, which means the country uses less energy to support a given level of economic activity. "The University of Houston is a good customer for us," cites Jackson Hinds, chairman of Entex Inc. "They are using probably half as much gas as they did ten years ago because they have invested a lot in energy cost reduction."

A snow-laden house last winter

Praying for hard winters and runaway recovery.

The university was no isolated case. General Motors reported a 27% rise in output with zero increase in gas consumption. Meanwhile, exploration companies like Standard Oil Co. (Indiana), Mitchell Energy and Shell keep finding more gas. Conservation, then, isn't really the right term to describe what is happening. It's simply that price is performing its function in a free economy, in this case restricting demand and stimulating output. So, don't look for a quick recovery in this industry.

But if there is too much gas around, how come prices aren't dropping? Because of old rigidities built into the system by the ill-advised price controls of the past. As old, controlled, low-priced gas contracts come to an end, the high-priced gas signed up in the manic buying of the late Seventies keeps pushing up the pipelines' average cost. Tenneco's gas costs rose to $3.26 in April from $2 in May of 1981. This, too, hurts the industry because other fuels are easily substitutable for natural gas. In some places last year, pipelines were trying to sell $4.50-per-thousand-cubic-feet gas to customers who could buy the same amount of energy in fuel oil form for $3.75. One reason United Energy Resources, long one of the industry profit leaders, was beaten in the latest 12-month industry Yardsticks was that buyers along its Gulf Coast pipelines began picking up especially cheap residual fuel oil from nearby crude refineries. As long as oil prices remain weak, fuel oil will continue to keep a cap on the price gas pipelines and distributors can charge.

The gas industry is fighting to lower wellhead prices, but there are problems. The biggest shackles are "take-or-pay" contracts the pipelines signed with producers. These specify that if a pipeline cannot take delivery of its minimum contracted quantity—usually at prices that look indigestible today—it must pay for the gas anyway, for future delivery. That was a killer in 1983, which is why some of the biggest companies in the business invoked *force majeure* to get out of the contracts. Northwest Energy has settled amicably with its suppliers, but Tenneco and Columbia triggered a storm of lawsuits. Panhandle Eastern Corp., which is saddled with expensive liquefied gas from Algeria, has had to prepay $43 million for unsalable gas (against a contract exposure of $2.6 billion). Try that at today's interest rates.

A few pipelines, such as Yardstick-topping Sonat Inc., have managed to haggle away some problems. "The producers aren't stupid," says Henry Goodrich, Sonat's chairman. "They know we can't sell the gas, and there's usually something you can give them, like a hookup to a new well [which will persuade them to renegotiate their contracts]. We've got our take-or-pay obligation down from $500 million, which was a choker, to something less than $300 million, which we can live with." In a few years, however, Sonat will be in the anomalous position of needing more gas. So Goodrich has signed up for 1.5 trillion cubic feet, with delivery starting in 1985, from Arkla Inc., which has abundant reserves of low-cost gas, as one can sense immediately from its latest 12-month return on equity. Unfortunately, Sonat's idle offshore drilling rigs are likely to pull down earnings in 1984.

Everyone in the industry believes that gas deregulation would help. But there are as many versions of deregulation as there are supporters, and few versions look like anything Adam Smith would call a free market. Dis-

tributors and producers disagree on whether the price of "old" gas (found before 1978) should be decontrolled. Producers and pipeliners debate whether high-priced take-or-pay contracts should be ripped up. Pipeliners and distributors are at loggerheads over automatic passthrough of gas costs. Most hotly contested of all is mandatory contract carriage, which would force pipelines to carry gas that customers bought directly from the producers for a transportation fee *(see box)*.

Given the violence of the debate, it's understandable that a comprehensive deregulation bill was defeated in November and probably won't stand a chance of passage until the presidential election is over. "It's a little like the Houston Astros at the end of the season. We're 6½ games out of first place, but we're not mathematically eliminated yet," says Tenneco Executive Vice President Joe B. Foster.

If there is a silver lining for the future in all this, it is that everybody concerned seems disgusted with price controls—even though nobody can agree how to get out of them.

Now the good news: Industrial buyers have long been forced to bear a disproportionate share of gas service costs in order to keep prices to residential consumers lower. That's what is politely called populism. Populism is popular with voters, until they understand that it has been costing them their jobs.

Moreover, when overburdened industry shuts down or switches fuels, it leaves more fixed costs to be borne by the voters. So utility commissions in Pennsylvania and elsewhere have

This is deregulation?

By allowing buyers to circumvent a pipeline whose gas price is too high and deal directly with the people who own the wells, Congress figures pipelines will be spurred to hold down prices. It's a good idea. In theory. But as usually happens with such well-intentioned political meddling, Congress' last shot at "deregulation"—the Natural Gas Policy Act of 1978—has helped mostly lawyers, and this new version may do the same.

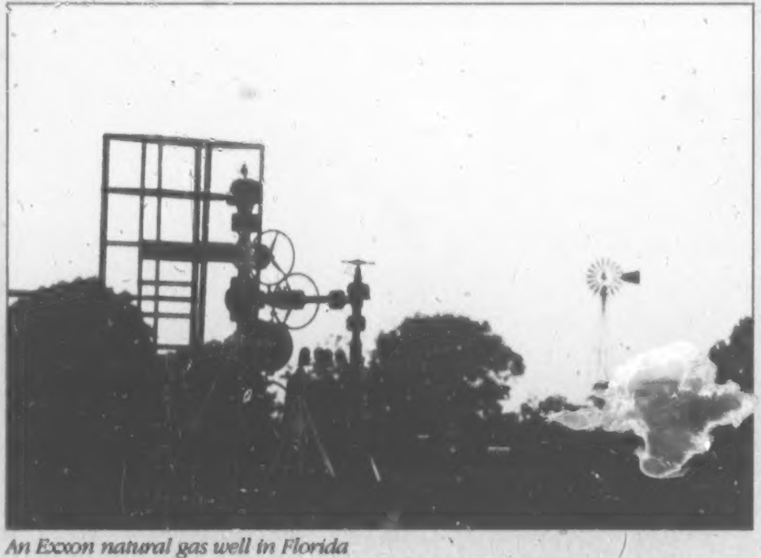
"Mandatory contract carriage," as it's called in the deregulation bills, would force pipelines with extra capacity to haul gas for others for a fee. Actually, they often do so voluntarily: In 1982 gas hauled for others in this fashion accounted for 18% of all gas transported interstate. But the pipelines don't want to be forced into anything. They don't want to be made to carry gas for low-cost competitors. Here's how the situation developed.

When the gas glut began, a few small intrastate pipelines, most notably Lear Petroleum Corp., began trying to outflank the big interstate pipelines by selling cheap gas directly to users, usually on a short-term basis. The interstates balked at carrying this gas in their pipelines. Why should they undercut their own business? Now Congress wants to force them to do so. In the name of the sacred consumer, of course. Of course.

Meanwhile, without being forced by Congress, some pipelines are setting up their own direct-sales programs. Transco Energy, for example, started one last May, acting as broker for buyers and sellers, and now transports 150 million cubic feet of direct-sales gas a day. "It makes no difference to us. We make the same margin whether we transport or whether we buy and sell," says Transco President Kenneth Lay, who thinks direct sales could account for as much as 30% of all gas sold by 1990. Tenneco, United Energy Resources, Columbia Gas System and Panhandle Eastern have also started such programs in the last few months. But other pipelines resent being forced to deal with competitors.

What happens if Congress forces the big pipelines to deal with people like Lear? A bureaucratic apparatus would have to be created and law firms would benefit. "The regulators will have to make all kinds of planning and operating decisions about whether capacity exists, how you're going to haul the gas, where you're going to drop it off, how you're going to bring it in and out of storage—all abdicated to some unknowing federal employees who are going to be pulled in a bunch of different directions on every issue. It's going to be chaotic," says George Lawrence, president of the American Gas Association. He endorses giving FERC "the authority on a rifle-shot basis to mandate hauling gas when a pipeline is stonewalling someone."

Lovers of regulatory solutions to market problems should consider the case of Panhandle Eastern when it filed for a rate increase last March. It got a questionnaire from FERC that took 180,000 pages to answer. So-called consumerism often benefits lawyers and bureaucrats more than it does consumers.—T.M.



An Exxon natural gas well in Florida

Congress' next shot at deregulating gas may help mostly lawyers.

approved price breaks for big industrial buyers, which will help win back lost markets. All the same, industry profit leader Pioneer Corp. last year spun off its West Texas distribution system partly for fear that regulators would begin to covet its revenues from exploration, gas transmission and other operations.

So you can bet that the industry isn't running out of problems. And yet the natural gas industry remains attractive to big business. Several pipelines have been or are in the process of being bought out—El Paso Co. by Burlington Northern Inc., Northwest Energy Co. by the Williams Cos., Celeron Corp. by Goodyear Tire & Rubber Co., etc. MidCon Corp. and Houston Natural Gas Corp. have also been mentioned as potential targets. (Stock prices, unfortunately, already reflect the chances of a takeover.)

What's the lure? "The pipeline industry couldn't be built again, so it's got no competition," says Goodrich of Sonat. "It's a franchise-type operation with a reasonable rate of return. That's attracted some of the wolves. Sharks, too." But the sharks and wolves wouldn't be there if they didn't think this was an industry with a bright, long-term future. ■

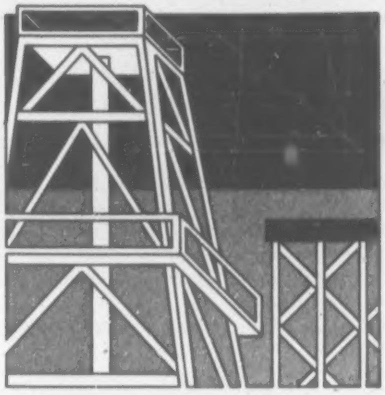
Natural gas

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Producers and pipeliners												
SONAT	1	19.6%	18.7%	0.6	1	11.6%	10.3%	7.8%	3	24.7%	2	16.1%
Transco Energy	2	18.5	14.4	1.0	7	8.2	7.2	3.1	1	34.2	1	17.6
Panhandle Eastern	3	18.4	10.1	1.0	3	9.7	5.5	4.4	2	25.3	3	11.8
ENSERCH	4	17.9	9.6	0.7	2	10.7	6.5	2.9	6	23.4	4	11.3
Texas Eastern	5	17.0	10.2	0.5	4	9.4	6.7	2.5	5	23.6	5	9.8
Tenneco	6	16.3	13.1	0.7	5	9.4	7.4	4.9	8	16.2	6	5.6
MidCon	7	13.5	12.1	0.5	6	8.6	8.0	3.7	4	24.2	7	5.0
El Paso	8	7.9	14.4	1.6	8	5.2	7.0	1.8	7	20.3	8	–22.5
Medians		17.5	12.6	0.7		9.4	7.1	3.4		23.9		10.6
Pipeliners and distributors												
Pioneer	1	30.7%	21.2%	0.7	1	16.6%	10.8%	7.6%	6	19.3%	2	20.7%
United Energy Resources	2	23.5	5.7	0.4	2	16.3	4.5	1.2	1	29.1	3	18.9
Houston Natural Gas	3	23.2	15.1	-0.3	3	14.7	10.6	6.4	7	19.1	4	15.2
Valero Energy	4	22.8	13.7	0.6	4	11.4	7.5	4.1	10	14.4	1	67.6
Arkla	5	20.2	16.2	0.6	5	10.6	8.6	6.0	2	32.8	5	10.8
Am Natural Resources	6	17.5	17.8	0.9	8	8.8	8.7	5.2	5	20.1	6	10.2
InterNorth	7	17.1	15.4	0.5	6	10.1	9.4	4.8	3	20.2	8	8.1
Northwest Energy	8	15.1	7.8	1.2	9	8.7	4.8	1.8	4	20.1	7	8.6
Mountain Fuel Supply	9	14.8	19.0	0.7	7	9.0	10.2	9.2	8	18.7	9	7.3
Columbia Gas System	10	13.6	10.8	0.8	10	7.8	6.7	3.4	9	18.3	10	6.4
Medians		18.9	15.3	0.7		10.4	8.7	5.0		19.7		10.5
Distributors												
Entex	1	22.5%	19.7%	0.7	1	12.3%	11.5%	4.2%	3	22.7%	1	14.8%
KN Energy	2	17.6	19.0	0.6	7	8.8	9.0	6.5	13	17.7	9	6.3
Southern Union	3	17.2	10.6	0.5	4	9.9	6.8	2.6	8	18.9	5	9.1
Oneok	4	16.7	8.8	0.7	3	10.1	6.5	2.9	6	19.0	11	5.5
Diversified Energies	5	15.4	15.0	0.5	2	10.1	10.0	2.9	5	19.8	7	8.0
Brooklyn Union Gas	6	15.4	15.7	0.7	5	9.2	10.0	5.2	10	18.3	3	10.5
Pacific Lighting	7	14.7	15.7	1.0	6	8.9	9.7	3.4	2	23.1	2	11.8
Peoples Energy	8	14.3	11.7	0.7	11	7.3	6.5	2.6	17	15.6	12	3.1
Consol Natural Gas	9	14.1	15.2	0.5	8	8.5	9.0	5.5	11	17.9	4	9.1
Laclede Gas	10	13.2	12.3	0.6	10	7.6	7.5	2.6	15	16.0	8	7.8
NICOR	11	12.2	–3.0	0.6	13	7.1	2.9	1.5	14	17.0	14	1.6
National Fuel Gas	12	12.1	10.2	0.7	9	7.8	7.1	2.7	18	15.5	6	8.1
Washington Gas Light	13	10.7	13.2	1.0	14	6.5	7.0	3.8	16	15.9	10	6.1
UGI	14	10.4	1.2	0.9	12	7.2	3.1	1.1	1	23.4	13	2.7
WICOR	15	9.7	9.0	1.0		**	**	2.0	9	18.5	16	0.0
Atlanta Gas Light	16	9.5	10.3	0.9	15	6.2	6.8	1.6	4	22.1	15	0.9
No Indiana Pub Svc	17	8.4	10.5	0.9	16	5.4	6.0	6.7	12	17.9	18	–6.8
Gas Service	18	7.6	3.6	0.8	16	5.4	3.8	0.6	7	19.0	17	–3.4
Primark	19	4.9	5.3	0.8	18	3.9	4.4	0.9	19	14.7	19	–13.8
Medians		13.2	10.6	0.7		7.7	6.9	2.7		18.3		6.1
Industry medians		15.4	12.3	0.7		8.9	7.2	3.4		19.1		8.1
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
**Not available; not ranked.

With another poor year in prospect for oil service companies, the worst isn't over yet.



Oilfield drillers and services

By Robert H. Bork Jr.

AFTER AN ABYSMAL 1983, during which companies wrote off more than $1 billion pretax and laid off thousands of employees, oilfield service chief executives don't see much more than a modest upturn this year. To be sure, exploration is up domestically. The U.S. rig count has trended up to about 2,200 since scraping bottom at 1,807 in April, and the number of seismic crews conducting soundings for oil has grown to about 450 from a nadir of 402 during the same month.

But for the most part oilmen remain unimpressed. "There are quite a few signs of improvement in the air, but it's in the air more than it is in reality. It's nowhere near back to anything good yet," says John Wallace, chief executive of $2 billion (sales) Petrolane Inc., which ran in the red for the latest 12 months, as opposed to its respectable 18.9% five-year average return on equity.

A few years ago there was so much drilling that nobody counted the cost. Now, with more capacity than demand for it, drilling costs are way down, about 28% since 1981. Why haven't the lower prices stimulated drilling? It's an old story. "People buying a new car assume that they are going to get a better deal tomorrow or

Oilfield drillers and services

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
L B Foster	1	39.8%	def	0.8	21	8.8%	def	def	22	2.8%‡‡	22	–40.1%‡‡
Schlumberger	2	33.6	21.7%	0.1	1	31.1	20.3%	20.5%	7	22.6	2	27.9
Global Marine	3	28.9	13.7	1.3	11	13.3	6.6	14.0	2	27.5	1	86.5
SEDCO	4	27.9	33.8	0.5	4	15.5	18.2	23.6	19	8.6	4	23.0
Western Co No Amer	5	23.1	def	1.4	18	11.5	2.9	def	1	31.7	5	20.8
Kaneb Services	6	22.1	16.2	0.9	12	13.2	9.4	9.2	3	27.3	13	9.9
Geo International	7	20.7	def	0.6	2	17.2	def	def	8	22.4	18	4.5
Baker International	8	19.9	def	0.5	5	15.0	def	def	4	26.8	6	16.8
Tidewater	9	19.3	9.5	0.6	14	12.8	6.7	8.8	13	19.2	15	9.4
Parker Drilling	10	19.3	def	0.8	7	14.3	0.9	def	6	25.8	10	14.4
Reading & Bates	11	19.2	7.3	0.9	15	12.3	5.4	8.1	12	19.3	8	15.6
Cameron Iron Works	12	19.2	def	0.4	8	14.0	def	def	14	16.6	11	14.3
Petrolane	13	18.9	def	0.4	9	13.8	def	def	15	16.5	16	8.7
Halliburton	14	18.4	9.5	0.2	3	15.6	8.6	5.8	18	11.8	12	10.6
Zapata	15	17.7	11.7	0.9	20	9.4	7.0	10.7	21	5.4	3	23.4
Big Three Industries	16	17.2	8.4	0.3	13	13.2	7.0	7.6	11	19.3	9	14.5
Rollins	17	17.1	1.8	0.0	6	14.7	1.9	1.0	16	12.8	17	7.5
Hughes Tool	18	16.5	def	0.5	9	13.8	0.9	def	5	26.2	7	16.0
NL Industries	19	14.8	def	0.4	16	11.7	def	def	20	5.7	14	9.4
Smith International	20	13.5	def	0.2	17	11.5	def	def	9	22.0	20	3.8
Dresser Industries	21	13.2	0.1	0.2	19	11.1	0.9	0.1	17	12.0	19	4.0
McDermott Intl	22	8.6	7.4	0.3	22	6.3	6.0	3.0	10	20.0	21	–9.2
Industry medians		19.2	1.0	0.5		13.3	2.4	0.6		19.3		12.5
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡‡Three-year growth. def: deficit.

the next day or next month, so they don't rush out and buy one today. People who drill wells are probably the same way," says Dresser Industries Vice President Herbert Ryan. Certainly they haven't been rushing out to buy Dresser's rigs. Dresser was barely in the black last year.

Nor is there any hope from overseas markets. "The international scene is still sagging right now as far as we're concerned. Rig counts are falling. There are currency problems. And on top of that there has been a migration of excess equipment from the U.S.," says Wallace of Petrolane.

"This is an industry with a history of oversupply and undersupply and not one that moves smoothly between them," observes Ron Lassiter, chairman of Zapata Corp., a major offshore drilling contractor.

When is the next swing? James Lesch, chairman of $1.6 billion (sales) Hughes Tool Co., the world's largest maker of drill bits, thinks it might not come until 1988. Hughes predicts only small increases in U.S. drilling activity this year: average active U.S. rigs up 6.1%, to 2,425 from 2,285, and drilling expenditures up 12%, to $21.5 billion from $19.2 billion. Dresser predicts a modest decline, to an average 2,200 rigs. The optimists, like Baker International Corp., expect a steady climb through the year to 3,000, for an average of about 2,550. But even if the optimists are right, the figure would still be 40% below the best levels of the early 1980s.

Is there no good news in sight? Yes, there is. The industry has been forced to reduce its break-even point by about one-third. "Everybody's gone after their capital base and their cost structure with a meat ax," says Ronald Turner, a Baker vice president. Dresser's Ryan thinks an active rig count of 3,000 could bring back peak profit margins. "We're at a point where every increase in volume will be accompanied by a proportionately higher increase in margins," echoes Thomas Cruikshank, CEO of $7 billion (sales) Halliburton.

Who will feel the pickup first? Companies that make expendable products like drill bits and drilling mud have an obvious advantage over makers of rigs and other capital goods like McDermott International, Parker Drilling and Cameron Iron Works, where it may be years before demand picks up.

On the expendable side, drill bit manufacturers like Smith International Inc. began recalling workers in 1983, despite its deficit for the latest 12 months in return on capital. Smith's red ink came mainly from an $85 million writeoff of inventory, property, plant and equipment in the third quarter. Lesch of Hughes Tool says he probably will bring back workers later this quarter.

Why was industry profit leader Schlumberger Ltd. able to hold up so nicely with a 20.3% return on capital for the latest 12 months? Well, when your oilfield operating margins are averaging 40%, a dip of a few points doesn't affect you as severely as it would a weaker company. And one way number two SEDCO Inc. was able to rack up an 18.2% return on capital was by writing long-term rig rental contracts while others were taking shorter terms. When the market collapsed, SEDCO was covered and the others were not.

So, there are signs that the bottom is near for this industry. But there may be yet one more big bump. Says Chairman Wallace of Petrolane: "I think a lot of the companies in this business have hung on by their fingernails. But when this winter quarter hits, I believe the last plug will be pulled." ■

Life without banks

With commercial banks burned badly in the oilpatch, service companies are being forced to prop up ailing customers and finance their products. Some with strong balance sheets, like Halliburton, are simply offering longer credit terms. But companies like the Western Co. of North America, which already has too much leverage for its own good, can't do that. So they are, in some cases, taking an interest in their customers' fields as partial payment.

Perhaps the most innovative financing was devised by a small, debt-ridden, private Oklahoma producer called PCX Corp. Partners David Palm and Greg Cook formed a new company, Palm-Cook Production, and convinced several suppliers to invest $32 million worth of services and equipment in a 108 well drilling program in an area of proven but undeveloped reserves. With an additional $18 million loan from Continental Illinois, the company hopes to keep six rigs busy for a year.

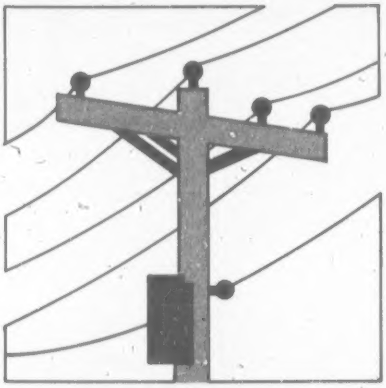
What made the bank go along with the deal? Self-preservation. It was their best hope for collecting several million dollars of debts owed by Palm's other production company, PCX. After the suppliers are paid for drilling the 108 wells, additional income will pay off PCX' loans and bills.

There could be more deals like that this year. "Creative financing is going to be a major factor in the energy market for a number of years," says Ken Miller, Smith Barney's oil service analyst.—R.H.B.

Roughnecks at work on Texas oil rig

Makers of expendable goods, like drill bits, will fare best.

This industry may have stopped growing. That's good for shareholders if not for suppliers.



Electric utilities

By Jean A. Briggs

WE'RE NOT GOING TO BUILD any more power plants. Ever again," says Thomas Page, chief executive of San Diego Gas & Electric Co. "We believe our ability to serve our customers hinges on our ability to transmit power from other areas of the country where there's a surplus to this area."

Everybody knows that utility growth has slowed down. What people can't agree upon is whether it will resume again and at what pace. Page thinks there will be continuing surpluses for two reasons: the fundamental economic shift from smokestack industries toward chip-based industries and customer conservation measures that are already in place. "I'm a bit of a contrarian," he says. "I believe the industry's growth rate is going to be much lower than most people are forecasting and that it may even be negative. The nation is a vast pool of electrical energy. Our job will be to transmit it from one place to another, to be energy managers."

Page isn't as much of a contrarian as he thinks. The Edison Electric Institute projects an average annual growth rate of 2.5% to 3% for the rest of the decade, but that's not enough growth to require vast infusions of new capacity. "We think we are passing through the peak of building now," says Richard Braatz of the EEI. "The industry expected to spend $36.7 billion in 1983. In 1984 it expects to spend $35 billion. By 1987 the number will be down to $28 billion."

Bad news? No, good news. "It gave a higher multiple to companies that have completed their building programs, such as Con Edison and Wisconsin Electric," says Ernest Liu, Goldman, Sachs' utility stock analyst. By contrast, he says, the market gave a lower multiple to companies still building, especially if they are

Electric utilities

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Northeast												
United Illuminating	1	15.4%	18.7%	0.9	2	8.8%	10.0%	17.7%	2	14.7%	9	4.7%
New England Electric	2	15.4	18.3	0.8	9	7.3	8.3	10.1	15	10.6	1	9.8
Commonwealth Energy	3	14.1	19.1	0.7	12	6.8	8.3	6.0	14	11.3	5	6.5
N Y State Elec & Gas	4	13.8	14.3	0.9	3	8.3	8.5	16.6	8	13.3	7	5.7
Long Island Lighting	5	13.7	15.0	0.6	1	9.1	9.7	20.6	3	14.7	15	1.8
Niagara Mohawk Power	6	13.5	15.6	0.8	4	8.0	8.9	11.7	5	14.1	8	5.3
Orange & Rockland	7	13.3	14.1	0.6	7	7.4	7.9	7.0	12	12.5	4	6.6
Consolidated Edison	8	13.3	15.3	0.6	6	7.6	8.9	10.1	17	10.1	2	9.6
Rochester Gas & Elec	9	12.6	14.9	0.8	5	7.8	8.8	11.0	4	14.3	6	6.4
Penn Power & Light	10	12.5	12.6	0.9	11	6.9	6.7	25.3	16	10.4	16	1.2
Delmarva Power & Lt	11	12.5	15.2	0.9	8	7.3	8.2	13.0	9	12.9	10	3.8
Atlantic City Elec	12	12.0	14.9	0.8	10	7.1	8.0	12.6	6	13.7	14	2.2
Boston Edison	13	12.0	12.2	0.8	16	5.8	6.0	6.8	13	11.7	3	7.5
Northeast Utilities	13	12.0	17.3	1.2	12	6.8	8.4	11.1	1	14.9	13	2.8
Phila Electric	15	11.8	13.8	1.0	15	6.6	7.2	14.8	10	12.8	11	3.3
Pub Svc Elec & Gas	16	11.8	13.0	0.7	14	6.7	7.3	9.8	11	12.6	12	3.0
General Public Utils	17	3.1	3.2	0.9	17	3.8	3.8	1.9	7	13.5	17	–20.7
Medians		**12.6**	**14.9**	**0.8**		**7.3**	**8.3**	**11.1**		**12.9**		**4.7**

Note: Explanation of Yardsticks calculations on page 38.

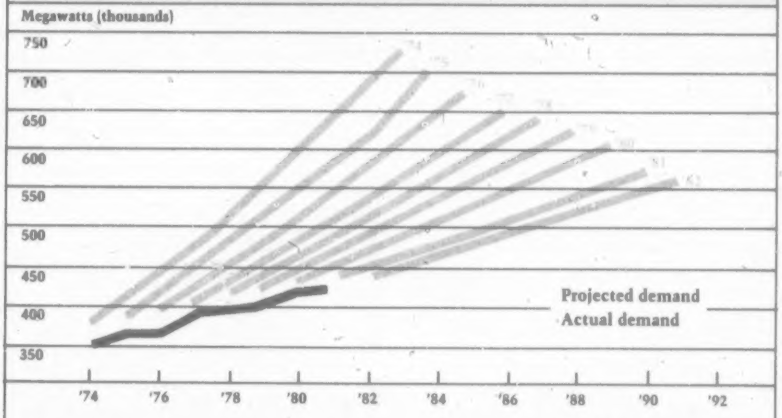
building nuclear power plants like Public Service of Indiana and Cincinnati Gas & Electric. So far as Wall Street is concerned, stagnation is in, expansion is out. In their expansion phase, utilities were in a no-win situation. High interest costs made the building of long-lead-time utility plants terribly expensive, while "populist" rate commissions refused to make the power companies whole.

Charles McNeer, chief executive of Wisconsin Electric Power, now has just two new coal-fired plants under construction, one wholly owned, one 25% owned. Once they start generating electricity next year, McNeer figures he's home free. "We won't need to think about building again until the late 1990s," he says. "And we've been able to ask for a rate reduction. We're confounding our critics."

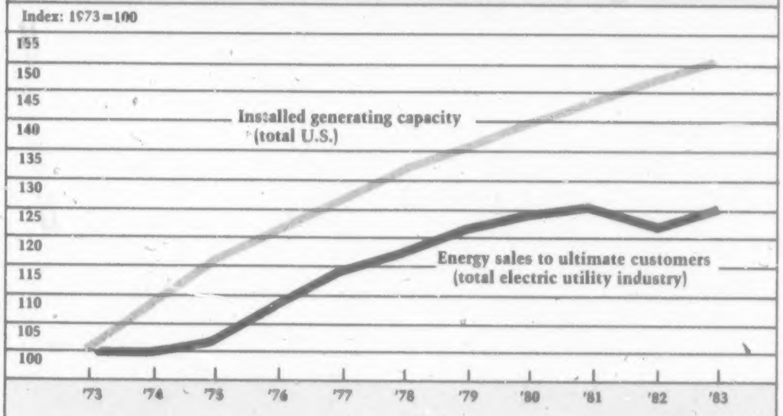
Another executive pleased to be through with building power plants for a while is William Berry, chief executive of Dominion Resources, the new holding company for Virginia Electric Power Co. The company, which operates four nuclear reactors, has canceled three others for lack of demand and a fourth because of high construction estimates. Berry hopes to learn early this year how the regulatory commissions that govern VEPCO will allow it to deal with the $500 million it invested in the last of those canceled reactors. Must the company simply write off the expen-

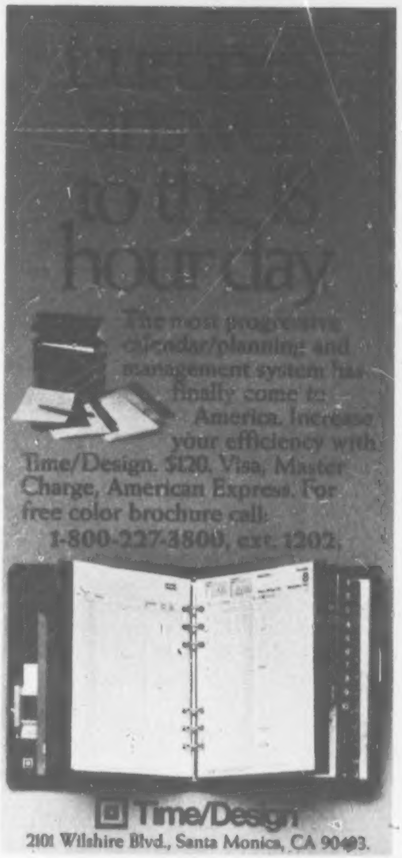
Inelastic demand?

Every year since 1974 the electric utilities have lowered their demand projections. And every year since 1974 actual demand has turned out to be even lower than expected.



Over 140 power plants have been scrapped since 1973. Since then generating capacity has increased 50%, demand 20%. Small wonder some utility men say they'll never build a power plant again.

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diture? If so, over how many years? Or will it be allowed to include it in the rate base and perhaps earn something on it? "It's a big item for us," says Berry. "A very big item."

Meanwhile, Berry has been trying to repair his highly leveraged balance sheet by selling part interests in two of his remaining four nuclear reactors to their customers, a group of electric cooperatives. VEPCO's only building project is a $1.6 billion pumped-storage hydro facility in western Virginia. It will be available in 1985 and, says Berry, is ahead of schedule and under budget. "This is our last project," he adds, "until sometime in the 1990s."

But some electric utilities still have very active building programs. Keith Turley, chief executive of Arizona Public Service, is managing the construction of three huge nuclear power plants, Palo Verde No. 1, No. 2 and No. 3. Construction of the plants is draining the company dry. "The commission didn't grant us a rate increase," says Turley. There was a change in commissioners, he explains. Instead of granting the 5.5% to 6% the hearing officer recommended, the commission granted 0.9%. "Our cash flow turned negative, and our financial condition has deteriorated to the point that all three rating agencies have downgraded us. Now we need an emergency increase."

Certainly the electric utility industry is due for a breather after the tumultuous Seventies, which turned their previously serene world on its ear. Before the oil embargo, technology in new plants lowered the price of a kilowatt-hour. After 1974, with rising fuel bills, inflation and interest rates, new plants increased the price of a kilowatt-hour. The economies of scale simply vanished.

Prior to the Seventies, demand was perfectly predictable: It grew 7% a year—"Like watching paint dry or grass grow," comments Braatz. Utilities, anticipating that growth rate to continue, undertook massive building programs. The energy crisis led them to believe they would get additional growth from residential and industrial customers cut off from natural gas or eager to get off imported oil. Electric cars also seemed likely.

None of these happy things came to pass. Meanwhile, to nearly everyone's surprise, the demand for power proved price-elastic—meaning that when rates went up people used less. That, in turn, has led to dozens of canceled power plants and to the current generating overcapacity.

So, for the first time in years, utilities are advertising, and some, like Detroit Edison and Philadelphia Electric, are offering discounts to industrial customers, justifying that step to regulators in the name of job creation.

Is a new era at hand for the embattled industry? An era when capital needs can be met out of cash flow instead of with costly outside financing? If inflation stays low, they won't have to keep asking for rate increases and may even begin asking for rate reductions. The industry might cease being a whipping boy for publicity-hungry "consumerists."

Alas, it is too soon to break out the champagne. Close to 60% of utility

Electric utilities

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Midwest												
Iowa-Illinois G & E	**1**	15.6%	18.3%	0.8	**9**	7.4%	7.9%	12.4%	**5**	14.5%	**5**	7.5%
Public Service Indiana	**2**	15.6	16.1	0.7	**3**	7.7	7.5	27.8	**17**	13.1	**8**	6.4
Wisconsin Pwr & Lt	**3**	14.8	16.5	0.7	**5**	7.5	8.2	9.6	**8**	14.0	**2**	8.3
No States Power	**4**	14.7	17.5	0.7	**15**	7.1	8.1	10.9	**19**	11.7	**4**	7.5
Indianapolis Pwr & Lt	**5**	14.6	16.4	0.6	**11**	7.4	8.2	17.4	**21**	11.3	**7**	6.9
Wisconsin Public Svc	**6**	14.3	16.6	0.6	**13**	7.2	8.1	8.4	**6**	14.2	**3**	7.6
Kansas Power & Light	**7**	14.3	16.5	0.7	**8**	7.5	8.3	13.5	**9**	13.9	**10**	5.7
Illinois Power	**8**	13.8	16.5	0.8	**5**	7.5	8.2	15.2	**4**	15.3	**15**	3.2
Allegheny Power	**9**	13.8	15.4	0.9	**12**	7.4	7.9	9.5	**3**	15.5	**9**	5.7
Wisconsin Elec Power	**10**	13.6	15.6	0.6	**9**	7.4	8.5	10.4	**7**	14.1	**1**	8.5
Union Electric	**11**	13.5	17.2	0.9	**19**	6.7	7.5	19.7	**22**	10.9	**12**	4.0
Cleveland Elec Illum	**12**	13.4	15.9	0.8	**2**	7.8	8.6	19.3	**20**	11.7	**19**	1.9
Kansas City Pwr & Lt	**13**	13.2	17.6	0.9	**20**	6.5	7.6	21.4	**10**	13.9	**11**	5.3
Central Ill Pub Svc	**14**	13.0	15.4	0.7	**17**	6.8	7.4	11.2	**15**	13.3	**16**	3.0
Cincinnati G & E	**14**	13.0	15.2	1.0	**7**	7.5	7.9	11.0	**13**	13.5	**14**	3.3
Central Illinois Lt	**16**	12.9	14.7	0.6	**23**	6.0	6.5	8.6	**11**	13.8	**6**	7.1
Dayton Power & Light	**17**	12.9	14.3	1.0	**1**	8.0	8.4	12.5	**14**	13.4	**13**	3.9
Toledo Edison	**18**	12.3	14.5	1.0	**4**	7.6	8.1	24.0	**16**	13.2	**22**	–0.2
Commonwealth Edison	**19**	12.2	16.7	0.9	**18**	6.7	8.1	17.3	**12**	13.8	**20**	1.9
Ohio Edison	**20**	11.8	13.4	1.2	**14**	7.2	7.6	16.5	**18**	13.1	**21**	0.9
Consumers Power	**21**	11.4	11.2	0.9	**22**	6.4	6.6	11.8	**23**	10.7	**18**	2.2
Duquesne Light	**22**	10.9	12.4	0.9	**21**	6.5	6.9	17.2	**24**	10.3	**23**	–1.1
American Elec Power	**23**	10.8	10.7	1.1	**16**	7.0	6.6	8.9	**2**	15.6	**24**	–1.2
Detroit Edison	**24**	10.8	13.0	1.1	**24**	6.0	6.2	15.3	**25**	9.6	**17**	2.7
No Indiana Pub Svc	**25**	8.4	10.5	0.9	**25**	5.4	6.0	6.7	**1**	17.9	**25**	–6.8
Medians		**13.2**	**15.6**	**0.9**		**7.2**	**7.9**	**12.5**		**13.5**		**3.9**

Note: Explanation of Yardsticks calculations on page 38.

Earnings magic

An intelligent reading of the Forbes Yardsticks on the electric utilities takes a bit more effort than it does for other industries because of the peculiarities of regulatory accounting. In most industries, the higher the return on equity the better. But in utilities a high return on equity may be almost meaningless. It can signify a high degree of noncash earnings and a possibly burdensome capital spending program. Here's why:

Most state commissions do not permit utilities to include in their rate base capital investments that are not yet producing. Nor can they expense interest costs on the money borrowed for the construction. Since the lead time on a utility plant can be a decade or more (with a nuclear plant), the sums involved may be tremendous. This means that while the utility pays huge amounts of interest, it doesn't deduct the interest from earnings. Earnings, therefore, look much better than they really are.

Instead of expensing the interest, the utilities capitalize it. That is, they add it to the cost of the new plant on their books. In theory, they will get the money back over a long period of time when the new plant is operating and is included in their rate base. In theory. Several nuclear plants—Lilco's Shoreham plant and Cincinnati Gas & Electric's Zimmer plant, notably—may be prevented from operating by politicians bending to antinuke pressures. What happens then to the investment and to all that capitalized interest?

Keep in mind that we are not talking about petty cash: Such allowances for funds used during construction account for 60% of all utility earnings.

We forgot to mention "rate shock." That's what happens to consumers when a new plant comes into the rate base and sends their rates up 50%. The customers don't like that. They complain to the politicians. So utility rate commissions are starting to require that the new plants be added to the rate base piecemeal, over a three-year or four-year period. That eases the pain for the customer but means, bottom line, that the utility reports "phony" earnings a while longer.

Another thing that is topsy-turvy in utilityland is the question of equity ratios. In most businesses a high common equity ratio is desirable. Not necessarily so in utilities. The more equity on the balance sheet, the higher the cost of capital, and the higher electric rates become. Nonetheless, overall the utility industry's common equity ratio has increased from 35.9% in 1979 to 38.7% today. This represents a substantial increase in a hugely capitalized industry. It is as much caused by difficulty in selling bonds as by fiscal conservatism. Where bonds can't be sold equity often must be—often resulting in severe dilution. A relatively low (but not rock-bottom) debt ratio, then, may indicate that the company has had to sell quantities of new equity, perhaps below book value, to maintain reasonable financial health.—J.A.B.

This announcement appears as a matter of record only.

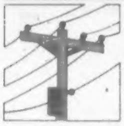
November, 1983

General Motors Acceptance Corporation

Medium-Term Note Program

We are pleased to announce our appointment as co-agents for the medium-term note program of General Motors Acceptance Corporation.

Merrill Lynch Capital Markets **Salomon Brothers Inc**



earnings in 1983 resulted from capitalizing financing costs and adding them back on the income statement, as required by the commissions. Any way you look at it, those were "phony" earnings. This add-back component should begin to decline in 1984 and 1985 as building programs wind down, putting pressure on reported earnings. And sluggish revenue growth, while holding down capital budgets, is no bonanza in the long run. Electricity sales were up about 2.2% in 1983, but that was due largely to the heat wave through much of the country. Pacific Gas & Electric, for example, reports sales down 1% in 1983 and expects them to be down again in 1984. Dale Steffes, a Houston-based consultant, forecasts a 2% average annual decline in kilowatt-hour sales for the rest of the decade.

Then there is the nuclear problem. Antinuclear activists have made things so tough for nuclear plants, delaying them repeatedly and frightening the public, that their costs have soared. So, what could have been a long-term benefit for the American people has become an albatross for the industry. A number of companies—including Long Island Lighting, Public Service of Indiana, Cincinnati Gas & Electric and Dayton Power & Light—are still struggling to get their new nuclear plants on line.

Those not afflicted by nuclear problems have acid rain to worry about. Old coal-burning plants, such as Indianapolis Power & Light and American Electric Power, may be legislated into huge expenditures for reequipping.

So, no, happy days aren't yet here for this industry. Quite a number of utilities seem concerned about the long-term survival of the industry and are forming holding companies and getting into other businesses. "We don't want to wait to do it until the commission tells us we can't," says Zane Todd, chief executive of Indianapolis Power & Light. ■

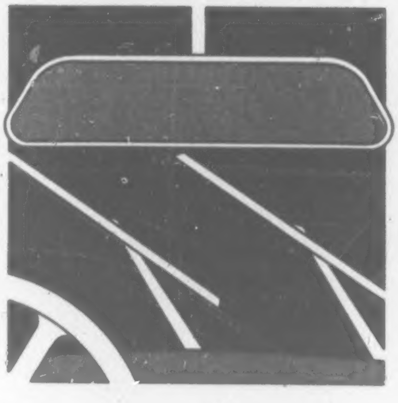
Electric utilities

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Southeast												
TECO Energy	1	14.4%	15.0%	0.7	5	6.9%	7.1%	11.1%	6	14.1%	2	7.0%
Duke Power	2	13.8	14.6	0.8	1	7.5	7.8	17.4	12	11.9	1	7.9
Potomac Elec Power	3	12.8	14.7	0.9	4	7.1	7.7	11.9	13	11.2	3	6.3
Florida Power & Lt	4	12.7	13.9	0.8	7	6.6	6.9	10.0	2	16.0	4	5.8
Baltimore Gas & Elec	5	12.6	14.4	0.8	2	7.2	7.9	12.3	10	12.8	5	5.4
Carolina Pwr & Lt	6	12.4	12.9	0.8	6	6.8	6.8	14.8	9	13.3	7	3.0
Middle South Utils	7	12.4	13.0	1.3	3	7.1	7.5	12.0	1	16.4	10	1.7
Southern Company	8	12.2	14.1	1.0	13	6.1	6.6	9.6	8	13.6	6	3.1
So Carolina E & G	9	12.1	13.2	0.8	10	6.3	6.6	11.1	4	15.1	9	1.8
Florida Progress	10	12.1	14.1	0.9	11	6.2	6.6	7.7	5	14.4	8	2.8
Louisville Gas & Elec	11	11.0	12.5	0.8	12	6.2	6.4	9.2	3	16.0	12	0.6
Kentucky Utilities	12	10.5	13.1	0.8	8	6.5	7.6	12.4	11	12.3	11	0.8
Dominion Resources	13	10.1	11.1	1.0	9	6.4	6.6	9.5	7	13.8	13	0.3
Medians		**12.4**	**13.9**	**0.8**		**6.6**	**6.9**	**11.1**		**13.8**		**3.0**
Southwest												
Southwestern Pub Svc	1	18.2%	21.3%	0.9	2	8.5%	10.6%	13.1%	4	17.6%	4	4.6%
Texas Utilities	2	15.1	15.3	0.8	3	8.4	8.4	13.0	2	18.5	1	8.0
Central & South West	3	15.1	15.7	0.7	4	7.7	8.4	11.1	7	16.4	2	6.6
Arizona Public Service	4	14.0	15.0	0.8	1	8.7	9.0	24.1	6	16.4	6	2.9
Gulf States Utils	5	13.5	16.0	0.9	5	7.6	8.9	16.0	2	18.5	3	4.7
Houston Industries	6	12.8	15.7	0.8	6	7.2	8.0	7.5	1	28.0	5	3.6
Oklahoma Gas & Elec	7	12.4	15.4	0.8	7	6.6	7.7	12.1	5	16.5	7	1.4
Medians		**14.0**	**15.7**	**0.8**		**7.7**	**8.4**	**13.0**		**17.6**		**4.6**
West												
Southern Calif Edison	1	14.4%	17.5%	0.9	2	8.7%	10.0%	15.4%	10	15.1%	2	5.8%
Montana Power	2	13.5	14.6	1.0	4	8.0	7.5	16.3	8	16.7	1	6.1
Pacific Pwr & Lt	3	13.3	15.3	1.1	5	7.9	8.4	15.2	1	23.8	4	4.3
Pacific Gas & Elec	4	13.2	14.0	0.8	3	8.5	8.8	11.7	7	16.8	3	5.6
San Diego Gas & Elec	5	13.1	16.7	0.7	1	8.8	10.3	11.0	2	21.0	7	2.6
Portland Genl Elec	6	12.4	12.8	1.0	6	7.8	8.6	23.9	6	18.5	6	3.1
Utah Power & Light	7	12.1	13.6	0.9	7	7.4	7.5	18.2	3	20.2	5	3.4
Puget Sound Pwr & Lt	8	11.6	10.1	1.0	8	7.0	6.2	18.6	9	15.9	10	–0.2
Public Service Colo	9	11.3	11.7	0.8	9	6.7	6.8	6.5	4	19.9	9	0.7
Hawaiian Electric	10	9.6	8.3	0.7	10	6.0	5.7	4.4	5	19.5	8	1.3
Medians		**12.8**	**13.8**	**0.9**		**7.9**	**8.0**	**15.3**		**19.0**		**3.3**
Industry medians		**12.9**	**14.9**	**0.8**		**7.2**	**7.9**	**12.1**		**14.0**		**3.7**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.

"I'd rather be called a son of a bitch for not delivering than for not making a profit," says Gerry Mitchell of Dana Corp. Yes, things are getting better—but don't get too excited.



Auto suppliers

By John R. Dorfman

STARTING FROM A BASE YEAR as hideous as 1982, auto supply companies catering mainly to the original equipment market, such as Libbey-Owens-Ford Co., Dana Corp. and A.O. Smith Corp., haven't had much trouble showing 1983 earnings that are around twice 1982's. Many of them even have a fair shot at doubling earnings again in 1984. So it might be tempting to assume that the auto suppliers are out of the woods.

The Yardsticks show it is not true. Median return on equity for partsmakers the past 12 months was a mediocre 11.2%, and for the tire and rubber companies a poor 6.5%. Average earnings-per-share growth for the past five years has been negative. And the median net profit margin for all auto suppliers is now down to 2.7%. In 1977 it was 4.8%. Anyone want to bet the auto manufacturers will now start treating their suppliers more generously? Don't. "The manufacturers are really going to keep the pressure on the suppliers," notes Pete Van Hull, automotive consultant with Arthur Andersen & Co.

The replacement parts crowd, led by such companies as Federal-Mogul Corp., Borg-Warner Corp. and Genuine Parts Co., has shown less volatility in earnings than the original equipment manufacturers—naturally, since people have to repair their cars even during recessions. But our Yardsticks show that the replacement parts companies have generally fared no better than their original equipment brethren.

While things are getting better, the industry is still reeling from the totally unfamiliar shocks of the last five years. Frederick Mancheski, chairman of Echlin Inc., a Branford, Conn.-based parts supplier with sales approaching $600 million, sums it up: "In the summer of 1979," Mancheski recalls, "gasoline prices shot up. In the fall interest rates nearly doubled [from year-earlier levels]. In our industry, wholesalers—or, as we call them, jobbers—tend to be sharply leveraged with debt. When interest rates rose, they reduced their inventories substantially. They had to keep themselves solvent. Jobbers then tried to return slow-moving merchandise to regional warehouse distributors, and they, in turn, tried to return it to us. So our normal growth in unit sales of 3% to 4% was entirely absorbed by the shrink in inventory." Now, with Detroit out of the intensive-care unit, there's some inventory rebuilding. But, as Mancheski says, "the customers have learned to live with thinner inventories." And that's not likely to change soon. For $50,000 to $100,000 a jobber can install a computerized inventory control system that lets him run an operation just as efficiently with 30% less stock than was common back in 1979.

Mechanic at work
The sparks are flying again.

For years replacement partsmakers ranked with food companies and pharmaceutical houses as good recession-resistant investments. If people can't afford new cars, they will fix up their old ones. But that wasn't the way it happened this last time: Repair spending grew a paltry 4.7% annually, from $66.9 billion in 1979 to $76.8 billion in 1982. With fuel prices high, people were driving less. And an increased percentage of driving was local. If you're only going to the grocery store, why fix the shock absorbers?

True, long-distance travel is now coming back—both vacations and intercity freight. So maintenance long deferred is now being done. At car dealers, repair revenue was up about 10% for the first ten months of 1983. Truck fleets, too, are breaking out the wrenches. That's good news for Southfield, Mich.'s Federal-Mogul. Says F-M Chairman Thomas Russell: "I'm looking for no less than a 10% to 15% increase in operating profits in 1984." Others are even more optimistic, perhaps because they are not burdened with Federal-Mogul's slow-recovering farm equipment and off-road vehicle markets.

But just how profitable Detroit's rebound will be to the auto suppliers remains to be seen. While carmakers are making more money, in part because consumers are buying bigger, pricier cars, they are not paying any more for parts nor buying as many more as you might think. The 10.25 million cars and trucks from domestic manufacturers Nelson expects to be sold in 1984 still fall well short of the 13.7 million-unit peak in the 12 months ended March 1979. And that's with stiff quotas on Japanese imports. So, while the carmakers can get buyers to swallow at least some price increases, few auto suppliers see much chance for price hikes. Competition, both domestic and foreign, has been keeping the lid on.

"We're still facing the price competition of offshore supply," says Gerry Mitchell, Dana's chairman. He doesn't mean only Japan, by the way. A lot of it comes from places like the key debtor nations of South America.

"As long as we're not going to put great pressure on Mexico, Brazil and Argentina to repay their debts—and I don't think we should—they are going to force us to hold down our prices. So I don't really anticipate price increases in 1984."

But there are bright spots, Mitchell says. "We've had pretty substantial productivity gains over the recession. I think we're a good deal more competitive than we were."

Right now, companies like Dana and Cummins Engine Co., Inc. have the wind at their back since they specialize in what is currently the hottest segment of the auto supply business: original equipment for the truck market. This year should be a great one for trucks *(see p. 109)*. "It's now in the silly stage," says Mitchell. "Heavy trucks didn't begin to move until September. At the moment the manufacturers are more limited by the ability to get parts than by the ability to get orders. Big leasers who were ordering 50 trucks suddenly don't want 50; they want 100. So suppliers are being urged to speed up delivery to earn the chance for a second order. But that's a nice change from having pressure on profits all the time. I'd much rather be called a son of a bitch for not delivering than for not making a profit."

Look over the performance Yardsticks below, however, and you can see at a glance how difficult this period has been, even for the profit leaders. Snap-on Tools Corp. is the leading producer of tools for auto mechanics, but its return on equity has been dropping from 28% in 1979. Its tactics these past several years have included salary and production freezes and some temporary plant shutdowns. Snap-on's balance sheet remains unusually strong, as can be seen from a glance at the debt/equity Yardstick. The same goes for Genuine Parts, Rockwell International Corp., TRW Inc., Borg-Warner and Champion Spark Plug Co.

Genuine Parts, the $2 billion (sales) Atlanta-based distributor, has maintained good margins in its highly competitive field and has been improving them slowly but steadily over the last ten years. Early and extensive

Auto suppliers

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Tire and rubber												
Goodyear	1	8.8%	7.0%	0.4	1	7.3%	7.0%	2.3%	3	7.4%	1	2.9%
Armstrong Rubber	2	6.4	13.1	0.5	2	6.3	10.0	3.0	1	9.3	2	–2.0
Genl Tire & Rubber	3	6.4	6.0	0.2	3	5.5	5.5	2.8	4	2.0	4	–7.8
B F Goodrich	4	3.7	def	0.6	4	4.8	2.3	def	2	7.5	3	–7.8
Firestone	5	2.8	7.3	0.3	5	3.1	5.7	2.4	5	1.4	5	–11.4
Uniroyal	6	def	4.8	0.8	6	1.8	4.7	1.6	6	–1.8	6	P–D
Medians		**5.1**	**6.5**	**0.5**		**5.2**	**5.6**	**2.4**		**4.7**		**–7.8**
Partsmakers												
Lear Siegler	1	22.1%	15.2%	0.3	4	14.8%	12.1%	4.5%	6	12.3%	1	16.0%
Snap-On Tools	2	21.8	16.4	0.1	2	19.2	14.8	8.7	5	13.7	4	14.0
Purolator	3	20.5	21.9	0.5	3	15.1	15.6	3.9	4	14.4	3	14.0
Genuine Parts	4	20.2	17.6	0.1	1	19.5	16.9	5.1	3	14.7	5	12.8
Rockwell Intl	5	18.5	18.8	0.1	5	14.6	15.9	4.8	19	6.4	2	15.6
TRW	6	17.4	12.2	0.2	9	11.5	8.6	3.5	8	10.9	10	7.7
Federal-Mogul	7	16.3	14.2	0.5	6	12.4	10.1	5.1	11	10.6	8	11.2
Johnson Controls	8	14.6	15.3	0.3	8	11.6	12.3	4.5	1	25.4	7	11.9
PPG Industries	9	13.9	12.1	0.3	11	10.4	8.9	5.8	15	8.1	9	10.8
Borg-Warner	10	13.5	12.1	0.2	7	12.3	10.9	5.1	13	8.9	6	12.5
Hoover Universal	11	13.1	17.2	0.5	12	9.7	12.2	4.1	17	7.6	12	0.6
Echlin	12	12.6	14.5	0.3	10	10.7	11.9	5.4	2	14.9	11	3.3
Dana	13	11.2	6.6	0.3	13	9.6	6.4	2.6	7	11.1	13	–1.0
Essco	14	11.1	9.0	0.8	15	8.4	6.5	1.9	10	10.7	14	–2.3
Champion Spark Plug	15	9.0	5.8	0.1	14	8.5	5.6	2.8	14	8.2	16	–7.0
Arvin Industries	16	7.9	7.8	0.5	17	6.5	6.6	2.5	22	4.8	17	–7.8
Barnes Group	17	7.4	def	0.5	16	7.0	def	def	9	10.8	15	–6.4
Dayco	18	6.5	1.8	1.3	21	5.0	2.9	0.4	18	7.3	18	–10.3
Sheller-Globe	19	5.9	10.2	0.8	19	5.2	7.4	2.6	24	2.9	23	–17.1
Cummins Engine	20	5.6	def	0.4	20	5.1	def	def	12	9.4	19	–11.3
Libbey-Owens-Ford	21	5.4	4.8	0.3	18	5.8	5.3	2.3	20	6.2	20	–12.3
Eaton	22	5.0	2.0	0.5	23	4.3	3.7	0.8	16	7.9	22	–16.5
Allen Group	23	4.5	def	0.9	22	4.7	2.3	0.0	21	5.7	21	–13.6
A O Smith	24	2.1	2.2	0.5	24	3.2	3.7	0.5	23	3.7	24	–17.7
Medians		**11.9**	**11.2**	**0.4**		**9.7**	**8.0**	**3.2**		**9.2**		**–0.2**
Industry medians		**8.9**	**8.4**	**0.4**		**7.9**	**6.8**	**2.7**		**8.2**		**–2.2**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.